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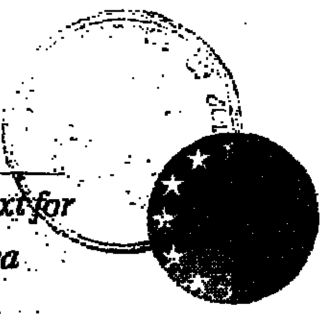

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FINANCIAL TIMES

Europe's Business Newspaper | MONDAY OCTOBER 17 1994 | D8523A

Kohl coalition claims victory in close-run German election

Ruling parties likely to remain in power with wafer-thin majority

By Quentin Peel in Bonn and Judy Dempsey in Berlin

Chancellor Helmut Kohl claimed victory last night in the German election, but looked set to rule with at best a wafer-thin majority for his conservative-liberal coalition. The final result depended on the success of a handful of candidates belonging to the reformed communist party in east Germany.

The first projections of the outcome suggested the coalition would have a majority of between three and 10 seats over the combined forces of the left – the Social Democratic party (SPD), the Green party, and the party of Democratic Socialism (PDS), the former communist party.

According to voting projections from the government statistical office in Berlin, the PDS would win four direct seats, one more than the minimum necessary to get its full proportional representation in the Bundestag, estimated at around 27 seats.

Mr Kohl last night described the predicted outcome, a majority of less than 10, as "a perfectly good working majority". He said the ex-Chancellor Helmut Schmidt had governed with a majority of just 10 in 1976.

"The projections suggest that we have won the all-German elections," Mr Kohl told cheering party workers in Bonn.

HOW THEY VOTED (8pm exit polls)

	% of vote
CDU-CSU	41.8
Free Democrats	6.9
Social Democrats	36.6
PDS	3.9
Alliance '90-Greens	6.9
Others	3.9

Mr Rudolf Scharping, the SPD leader, appeared to be conceding defeat, when he said the coalition appeared to have a majority of "one, two or three."

"It has been very narrowly endorsed," he said, "and therefore it is a coalition of losers." He said Mr Kohl was determined to go on with his present alliance, but he claimed: "We have a very strong position. We will use it to promote our policies of social justice and economic growth."

The biggest losers on the night were the Free Democratic party (FDP), the minority partners in the ruling coalition, who were set to lose about 30 seats.

In spite of the setback, however, a delighted Mr Klaus Kinkel, the party leader and foreign minister, was last night celebrating, because with its vote forecast at about 7 per cent of the vote, the party would keep its place in the parliament.

Mr Kohl's own Christian Democratic Union, with its Bavaria-based sister party, is set to remain the largest group in the future Bundestag, with some 284 seats, against around 250 seats for the Social Democrats. Neither has an absolute majority alone, so the smaller parties in the election – the FDP, PDS and the Greens – will dictate the final coalition possibilities.

The forecasts would allow two possibilities for the future German government to the current alliance – a grand coalition between the CDU/CSU and SPD, or a so-called "rainbow coalition" between the SPD, Greens and FDP.

However, both are less likely than the continuation of the present government. Mr Wolfgang Schäuble, parliamentary leader of the CDU/CSU group, said the result was "still a victory", and the coalition would continue.

But Mr Ludger Vollmer, joint leader of the Greens, warned that the coalition would be unstable. "I am not at all sure that Kohl and Kinkel will be able to survive a full four years," he said.

The Greens succeeded in regaining their seats in the Bundestag with about 7 per cent of the

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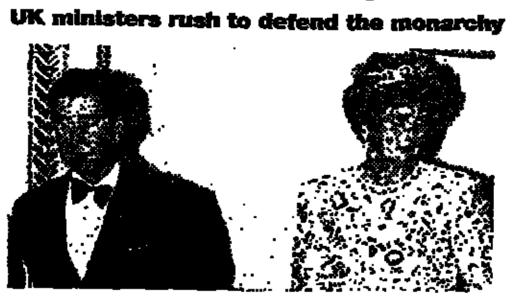
Reuter

One man's choice: Chancellor Helmut Kohl casts his vote in his home town of Oggersheim in Germany's general election yesterday

US warns Iraq over any future threats to Kuwait

Armed with a new United Nations resolution warning of "serious consequences" if Iraq once again menaces Kuwait, the US threatened immediate military action for any repetition of this month's huge Iraqi troop build-up near the Kuwaiti border. Warren Christopher, US secretary of state, said the UN resolution, passed unanimously by the security council late on Saturday night, put Iraq's President Saddam Hussein "on notice ... that he must not again threaten Kuwait". Page 6

UK ministers rush to defend the monarchy



Senior UK government ministers tried to quell public anxiety about the future of the British monarchy following the publication of extracts from a controversial book about the Prince of Wales and his failed marriage to Princess Diana. Page 20; **Queen Elizabeth visits Russia, Page 4**

Merck, biggest drugs company in the US, is offering users of its prostate drug Proscar satisfaction or a refund on the cost of the drug. Page 20

N Korean leader appears in public: Kim Jong-il's first public appearance in almost three months signalled that he would soon be formally named as North Korea's new leader. Page 20

Haitians stay calm as Aristide returns: Haitians largely heeded the call of their president, Jean-Bertrand Aristide, to avoid violence in the wake of his return to the country at the weekend after more than three years in exile. Page 4

Crackdown on Hamas: Yassir Arafat's crackdown on the extremist Islamic Hamas group, responsible for the kidnapping and killing of a Jewish soldier last week, has saved the Middle East peace process from collapse. Page 6

Perry welcomed in Beijing: William Perry, US defence secretary, received an enthusiastic welcome in Beijing at the start of a visit to discuss increased Sino-US defence co-operation. Page 4

France names trade minister: José Rossi, of France's Republican party, was appointed as minister for trade and industry, replacing Gérard Longuet who resigned on Friday. Page 2

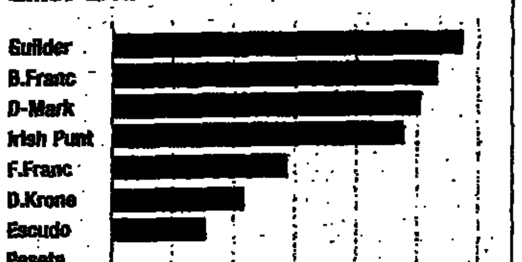
UK groups press for compensation: British businesses which paid a total of $2m in retainers to US company Bond Street Commercial in the hope of raising finance which they say never materialised have joined forces to press the US and UK authorities for compensation. Page 21

Cuban fund planned: Beta Funds, a London-based company, is planning to launch a $50m investment fund for Cuba and has created the first investment management company to be represented on the island. Page 23

Indonesian leaders challenged: It is a generally held view that Indonesia's President Suharto and his senior cabinet ministers stand above the law, but two court cases in the next few weeks will challenge the government's authority at its highest level. Page 7

European Monetary System: The Irish punt last week slipped two places in the EMS grid, but the spread between strongest and weakest currencies was little changed. Yesterday's German elections and the Finnish referendum on the European Union may affect the grid currencies this week. Currencies, Page 29

EMS: Grid October 14, 1994



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

£1.94m for fugitive Nissan UK boss: Octav Botnar, chairman of Nissan UK, for whom an arrest warrant has been outstanding for more than 2½ years, was paid £1.94m ($3.1m) last year in his role as chairman of Nissan UK Holdings and its subsidiary Nissan UK. Page 8

Retreat over Italian central bank: Italy's government has backed down in its attempt to impose an external candidate as the new second-in-command of the Bank of Italy, according to widespread reports in Italian papers.

Bangladesh ferry sinks: More than 100 people were feared drowned in the second Bangladesh ferry disaster in two months. The ferry, carrying a wedding party, went down in high seas in the Bay of Bengal.

New York State plans takeover of power company

By Richard Tomkins in New York

The State of New York has decided to buck the worldwide trend towards privatisation by announcing plans for a $2.53bn takeover of the Long Island Lighting Company, a private sector electricity company quoted on the New York Stock Exchange.

While some electricity companies in the US have always been publicly owned, this is believed to be the first time a state has proposed buying out the shareholders of a private-sector company and bringing it into public ownership.

Mr Mario Cuomo, the Democratic governor of New York State, says the aim is to reduce electricity prices for Long Island consumers and businesses. At present, the rates charged by the Long Island Lighting Company – known to its few friends as Lilco – are the highest in the US, if not the world.

The bid is likely to prove popular with the voters of Long Island. Significantly, it also happens to have been launched at a time when Mr Cuomo is locked in a fierce battle for re-election.

Lilco's electricity prices are high because the company is burdened with $5.3bn worth of debt, the legacy of spending $5.5bn between 1973 and 1984 building a nuclear power station at Shoreham on Long Island, which was dismantled because of public concerns about safety.

At present, Lilco's electricity rates are 16.1 cents per kWh for residential customers and 12.35 cents for industrial customers, roughly double the US average. Mr Cuomo says a takeover by the state will result in an immediate 10 per cent cut in those rates, plus another 10-15 per cent cut later.

The financial logic of the bid is beguiling. Mr Cuomo says that, under public ownership, Lilco will no longer need to pay federal taxes or shareholder dividends, resulting in immediate savings of $250m a year. Later, its debt will be refinanced with cheaper public sector debt. The bid itself will be financed through an issue of

Continued on Page 20

Finland votes decisively for EU membership

Result may boost Yes campaigns in Norway, Sweden

By Hugh Carnegy in Helsinki

Finland voted decisively to join the European Union yesterday in the first of three Nordic ballots that could enlarge membership of the EU from 12 to 16.

The final result showed 57 per cent in favour of membership and 43 per cent against on a turnout of 74 per cent. The outcome was welcomed by Mr Esko Aho, the Finnish prime minister.

However, the margin was less than pro-EU supporters had hoped for, and fell below Austria's more convincing Yes vote of over 66 per cent in June.

The toughest test for EU enlargement is still to come, as opposition to membership in Sweden and Norway has been much stronger than in Finland and Austria. Both Sweden and Norway are due to hold referendums next month.

Both the Social Democratic leadership in Sweden and the Labour party government in Norway looked to Finland for added momentum in their campaigns for a Yes vote.

The Finnish vote was scheduled first in the hope of achieving a Nordic domino effect. The three countries have close ties through the Nordic co-operation organisation and pursued their EU applications in concert.

In Sweden, which is next to vote on November 13, most opinion polls have shown a slight but unsteady lead for the Yes side since the summer. In Norway, where a referendum will be held on November 28, the No camp continues to hold a solid lead. But a weekend opinion poll for the first time showed a clear majority for membership based on a Yes in both Finland and Sweden. The poll showed 46 per cent in favour to 41 per cent against – a turnaround from last month.

In Brussels, Mr Hans van den Broek, the EU commissioner for external affairs, welcomed the Finnish result and said he hoped it would help a Yes vote in Sweden and Norway.

Finnish membership will mean a direct frontier between the EU and Russia for the first time, along the 1,270km Finnish-Russian border, and extend Union territory north into the Arctic circle. It will also mark an historic shift for Finland, ruled by Moscow until 1917, away from cold war neutrality into the western European political sphere.

Tha majority of the political establishment and the country's business leaders also argued that membership would underpin the Finnish economy which this year has started to recover from a crippling recession.

Fears grow that Brussels will turn into Babel, Page 2

Ford to pay $50m for 7% stake in Indian carmaker

By Kevin Done, Motor Industry Correspondent

Ford of the US, the world's second-largest vehicle maker, is taking a minority stake in Mahindra & Mahindra, one of the top 10 private sector groups in India.

Ford's move into the fast-growing Indian market follows recent, similar initiatives by several leading carmakers, including General Motors, Volkswagen, Mercedes-Benz and Daewoo. They are scrambling to establish a presence in newly emerging markets, particularly Asia and Latin America.

Ford said it would pay about $50m (£31.6m) for a 7 per cent stake in Mahindra & Mahindra, the automotive and tractor manufacturer.

The two companies are to launch a feasibility study into the manufacture of Ford vehicles in India, which should be concluded by mid-1995. It is expected to lead to a joint venture company with equal Ford and Mahindra shareholdings, which will set up a new plant – probably for the assembly of vehicles developed by Ford in Europe.

Ford's acquisition of a minority stake in the Indian group must be approved by Mahindra shareholders at a meeting on November 10.

Mr Alex Trotman, Ford chairman and chief executive, said the US carmaker intended "to be a significant participant in India's automotive industry in the near future". Last year, Ford started production of aluminium radiators in a plant near New Delhi in a joint venture with Sumitomo and Maruti.

In other moves this year in India:

- GM of the US has formed a joint venture with Hindustan Motors to invest about $100m to assemble the Opel Astra, GM's best-selling car in Europe, with production planned to begin in the third quarter of 1995.
- Mercedes-Benz, the automotive subsidiary of Daimler-Benz of Germany, has formed a joint venture with Tata Engineering & Locomotive (Telco) of India, one of the world's leading makers of commercial vehicles, with an investment of about DM250m (£102.4m) for the assembly in India of Mercedes-Benz E-Class executive cars as well as petrol and diesel engines. Daimler-Benz holds a stake of just over 10 per cent in Telco.
- Volkswagen of Germany, the leading European carmaker, signed a memorandum of understanding last month with Eicher Goodearth to study the feasibility of joint vehicle production in India. The Eicher group produces Mitsubishi light commercial vehicles under licence in India.
- Daewoo, the South Korean conglomerate and the country's third-largest carmaker, has bought a majority stake in DCM-Toyota, an Indian truck maker, which it plans to transform into a carmaker under the name DCM-Daewoo Motors.

Volkswagen said that Asia offered the strongest prospects for growth in the world car market – annual sales in India are expected to double to between 450,000 and 500,000 by 2000. The Indian car market is dominated by Maruti, a car produced through a joint venture between the Indian government and Suzuki of Japan.

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Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lv60.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira90	S. Africa	R12.00
Czech Rp	CZK50	Israel	Shk8.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Estonia	EKr 20	Jordan	JD1.50	Philippines	Pes50	Syria	S£50.00
Finland	FM14	Kuwait	Fils625	Poland	Zl 38,000	Tunisia	Din1.500
France	FFr9.50	Lebanon	US$1.50	Portugal (m'land)		Turkey	L30000
Germany	DM3.60	Lux	LFr65		Es225	UAE	Dh12.00

PINK SNOW

Balladur acts to curb upheaval

By John Ridding in Paris

Mr Jose Rossi, general secretary of France's Republican party, was yesterday appointed minister for trade and industry in the country's centre-right government, replacing Mr Gérard Longuet who resigned on Friday following growing allegations of corruption.

The swift appointment and the decision not to implement a broader cabinet reshuffle, reflect Prime Minister Edouard Balladur's attempt to limit the upheaval in his government with presidential elections little more than six months away.

Mr Balladur is seeking to play down the effects of the corruption scandals that have rocked the administration and which have prompted the resignation of two cabinet ministers in the past three months.

The appointment of Mr Rossi enables Mr Balladur to maintain the balance between the various parties in the ruling RPR-UDF coalition. The Republican party, which is still headed by Mr Longuet, is the largest element of the UDF.

Mr Rossi, 50, is thought to be to the right of the Republican party and is considered a potential supporter of Mr Balladur in his undeclared contest with Gaullist rival Mr Jacques Chirac for the conservative candidacy in next year's presidential election.

The new minister will inherit a broad and sensitive brief. In addition to trade and industry, the position also covers postal services and telecommunications.

Mr Rossi will be presented with some important projects not completed at the time of Mr Longuet's resignation. These include the search for industrial partners for Groupe Bull, the loss-making computer manufacturer. Mr Longuet was also pushing for reform of the legal status of France Télécom, which would allow the exchange of equity investments with other international telecoms operators.

Corruption rocks French ship of state

Resignations have holed Balladur's government and ambitions, writes **John Ridding**

Announcing his resignation at his prime minister's Matignon office on Friday evening, Mr Gérard Longuet, the industry minister, described himself as calm and serene. He claimed he could now counter allegations of corruption concerning the financing of his Saint Tropez villa and a separate probe into the funding of his Republican party.

For Mr Edouard Balladur, the prime minister, however, it is difficult to be so sanguine. Mr Longuet leaves a government badly shaken by corruption investigations which are threatening Mr Balladur's presidential aspirations and which have prompted comparisons with Italy's "clean hands" anti-graft campaign.

Mr Longuet's departure compounds the blow sustained by the government a few days earlier when Mr Alain Carignon, the former communications minister, was detained in a Lyon jail. Mr Carignon had resigned in July after being accused by an investigating magistrate of receiving illicit payments in return for the award of public works contract in Grenoble, where he is mayor.

Although less dramatic, Mr Longuet's resignation is more significant. A heavyweight in France's centre-right administration, the industry minister is the most senior figure yet ensnared by the corruption probes which are rocking French politics and business. His departure represents a landmark in the investigations and demonstrates the increased vulnerability of French establishment figures.

For Mr Balladur, the events of the past week add up to his most serious challenge since his centre-right administration took office last year. In addition to the damage wrought by two ministerial resignations, his personal ambitions have been undermined.

With his eyes set on next spring's presidential elections, the French prime minister looked to Mr Longuet as a vital ally in his battle with his Gaullist rival, Mr Jacques Chirac, for the conservative candidacy in the forthcoming polls.

The French prime minister now finds his strategy and his standing undermined. "It is no longer a question of cracks but of gaping holes in the Balladur system", said Libèration, the daily newspaper, in an editorial. Le Figaro, the conservative daily, highlighted the growing threat posed by Mr Jacques Delors, the president of the European Commission and a possible socialist candidate in the French presidential elections, who has closed the gap on Mr Balladur in recent opinion polls.

The risk is that the corruption affairs affecting his government may not be so easily tamed. A report into the finances of the Republican party by Mr Reynaud Van Ruymbeke, an investigating magistrate, could drag other senior party figures into the firing line, including Mr François Léotard, the defence minister, and Mr Alain Madelin, minister for economic development and small businesses.

Of broader concern, are the growing wave of probes which have seen the chairmen of some of France's largest business groups, from Saint Gobain, the glass and building materials company, to Alcatel Alsthom, the transport, telecoms and engineering concern, placed under investigation for alleged corruption. The cases have ensured that corruption will be a central theme in the presidential polls and have fuelled pressure for an Italian-style "clean hands" operation.

Mr Balladur, along with other senior politicians and businessmen, deny that corruption is endemic in France and reject the comparison with Italy. He argues that the spate of investigations reflects a freer hand enjoyed by the judiciary in pursuing cases which mostly date back to the 1980s. Mr Pierre Méhaignerie, the justice minister, concurs. "We are cleaning up the problems of the past. On the ground, corruption is receding."

Mr Balladur tells Mr Mitterrand in this morning's Le Monde: 'Right, I will answer for those locked up or elsewhere'

There is some truth in these claims. The case involving the Republicans, for example, centres on allegations that the party received illicit funds and favourable terms for the construction its Paris headquarters between 1987 and 1991. Few would claim, however, that the problem of corruption is resolved.

Despite his initial claims that the existing legislation will resolve the problem, Mr Balladur has bowed to mounting pressure and proposed a strengthening of safeguards against corruption. He is calling for a panel to perform an annual audit of the assets of ministers, MPs and senior local officials. He also proposed that prefects, the chief government representatives in the regions, be empowered to suspend suspect public works contracts.

For some, however, such proposals do not go far enough. Mr Thierry Jean-Pierre, an investigating magistrate, and now a Euro-MP, demands increased resources for magistrates investigating political and white collar corruption and the formation of judicial teams to specialise in financial cases. According to Mr Jean-Pierre, failure to act swiftly against corruption will push France down the road to "Italianisation", undermining political institutions and playing into the hands of demagogues such as Jean-Marie le Pen, leader of the extreme right National Front.

Such an analysis, is itself, extreme. But the rising wave of corruption probes have already rocked the French ship of state. Mr Balladur has yet to show that he can steer it back on course.

Fears grow that Brussels will turn into Babel

By Emma Tucker in Brussels

Against the sombre backdrop of high unemployment, there are a few Europeans for whom job offers are overflowing: Finnish Portuguese speakers, Greeks able to translate complex documents into Norwegian, not to mention Spanish natives well versed in Swedish.

As Brussels prepares to open its arms to Norway, Sweden, Finland and Austria, the language services of the European Commission, parliament and council of ministers, are busily recruiting interpreters for the extra languages the newcomers will bring to European proceedings.

The cost of expanding the already elaborate language services has caused consternation in certain quarters. One speculation is that the total number of language combinations necessary at any official meeting will rise from 72 to 132; new booths will have to be built to house the translators, and the mound of printed translations will topple over.

Conservative MEP James Elles believes the EU's commitment to translate official documents into all nine, soon 12, languages, and to provide comprehensive translations at official meetings is unrealistic, and a drain on the public purse.

"Can we really assume that all documents and all meetings can be covered in all the necessary languages? Why is it that an international institution such as the EU needs to have every single document in every single language when the United Nations and the Council of Europe seem able to operate with only a few?" he asks.

Mr Elles, says the commission, exaggerates. First, the translation service commonly uses a "pivot" system for simultaneous translations. This means that a central interpreter translates from the less well-known languages, such as Danish, into a commonly-used one such as French or English, from which other interpreters then translate into, for example, Portuguese.

"You don't have to have someone in the Danish booth who can translate into Portuguese or Greek," said a commission official. "The system is not perfect, as it slows down the rate of translation, but it does reduce the number of language combinations."

Second, at least as far as the commission is concerned, officials take a pragmatic approach to which language they use for everyday business. "The parliament, for all the usual democratic reasons, has to work in all the languages of the member states, whereas the commission just gets on with things in the three official languages: French, German and English," said an official.

As for documents, "we are reinforcing our language teams in order to produce documents in the final language, but that is an obligation to the outside world."

All this, says the commission, creates the need for about 400 extra language posts. A far more pressing problem is finding jobs at all levels of the commission for civil servants from the new member states.

Estimates suggest that room needs to be found for about 1,300-1,700 Finns, Swedes, Austrians and Norwegians. In the past, space was created by offering golden handshakes to existing staff, but Mr Karel Van Miert, commissioner responsible for personnel issues, has ruled out this approach as too expensive.

Demographic factors could, however, come to his rescue. "The commission was set up in the 1960s, so people who joined then in their 30s are now retiring," pointed out an official. "If you allow for a lengthy transition period, we should be able to absorb the newcomers fairly easily."

But this approach creates a new problem; it will stop virtually all recruitment of existing member states for four to five years, something which certain countries, notably Spain and the UK who are under represented at the commission, may be unwilling to accept.

Meanwhile, tension over language in the Commission press room is rising, with non-French speaking journalists increasingly unhappy about the obligatory use of French at the midday briefings, for which no translation is provided.

Many non-French-speaking journalists do not understand the proceedings and have to put questions in faltering French to English-speaking spokesmen and women, who are obliged to answer in French.

"Je veux demander une question sur les bent bananes," is not untypical of the type of mangled questions asked. With the arrival of the three Nordic countries and Austria, the case for providing an English translation in the press room is strengthening. Last week journalists voted in favour of such a move. Their wish, however, may not be granted. Commission officials fear that allowing in English means allowing in German, and Italian and Spanish and so on. This, they say, would be too expensive.

Further, Mr Jacques Delors, it is said, does not want to go down in history as the French president of the Community who allowed English into the press room.

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NEWS: EUROPE

Kohl win removes uncertainty

Muted effect on markets expected

By Andrew Fisher in Frankfurt

GERMAN ELECTIONS October 16

The prospect of victory, although narrow, for Chancellor Helmut Kohl's conservative coalition in yesterday's German general election, was welcomed last night by economists and is expected to remove an element of uncertainty from financial markets. Both the bond and stock markets have swung from pessimism about the possibility of an opposition victory to optimism and gains last week as polls showed Mr Kohl's government was likely to be re-elected. Although early results indicated Mr Kohl's majority would be wafer-thin, there was relief that the Free Democrats (FDP), the junior coalition party, had succeeded in re-entering the Bonn parliament after failing in recent state elections.

Because a victory for Mr Kohl, head of the Christian Democratic party (CDU), had been discounted in financial markets, economists did not expect bond and equity markets to show further gains today.

"If the results are as the exit polls suggest, the effect on markets will be rather modest," said Mr Kermit Schoenholtz, senior economist at Salomon Brothers International in London. "I would not be surprised to see the initial reaction rather muted," agreed Mr Richard Reid, Frankfurt-based economist with UBS Global Research. Noting that bond markets had been affected by concern over global inflation, he said Mr Kohl's likely victory had now removed any extra worries over political stability in Germany.

"This has got to be good for bonds and stocks," he added. Even though the majority of the Bonn coalition, also including the Christian Social Union (CSU) of Bavaria, looked thin, he said: "These coalitions tend to work very closely."

He thought, too, the election result should make easier the Bundesbank's job of controlling the money supply and inflation. "It removes a big question mark." Ever since unification in 1990, the year of the last general election, the central bank has been concerned about the impact on prices of the high public spending needed to rebuild the east German economy.

Despite the coalition's apparent victory over the Social Democrats (SPD), Ms Alison Cottrell, international economist at Kidder Peabody's London operation, noted "it's going to be a very splintered parliament". The Greens won more seats and the east German-based Party of Democratic Socialism (PDS) looked likely to benefit from discontent in the east.

Thus she thought that, while markets would react favourably to last night's result, investors and traders might consider Mr Kohl's freedom of manoeuvre – especially in fiscal policy – to be more limited.

As for the Bundesbank, she said the reaction there might be one of caution. If budgetary and tax packages, needed to continue paying the high cost of German integration, took too long to get through parliament, "the Bundesbank might flex its muscles". But this did not mean it would immediately put interest rates up.

Mr Schoenholtz thought the central bank could take comfort from steady economic growth which did need not need the aid of lower interest rates.

All party leaders find some cause for comfort

By Quentin Peel in Bonn

All the main party leaders in Germany appeared to be celebrating last night, although really only the former east German communists had good reason to do so.

Chancellor Helmut Kohl appeared beaming with self-confidence in front of his Christian Democratic Union party workers, declaring his wafer-thin majority, and the party's worst vote since 1949, a victory.

The CDU and its Bavaria-based sister party, the Christian Social Union, remains the biggest single group in the Bundestag, but government will be difficult.

Mr Rudolf Scharping, the Social Democratic party (SPD) leader, has failed to dislodge Mr Kohl from his office.

But he was able to cheer a 3 percentage-point improvement in the party's score, to around 37 per cent of the vote.

He denounced the Kohl coalition as "a coalition of losers", although he had failed to win.

As for Mr Klaus Kinkel, the foreign minister and leader of the Free Democratic party (FDP), anyone might have thought he had won, as he burst, confetti-covered, into his party headquarters.

"We have made it, and I am happy," he said. "It was incredibly difficult to get there." What he meant was, getting back into the Bundestag at all. For the FDP had lost ground from 11 per cent of the vote last time to around 7 per cent yesterday, seeing its representation slump by 30 seats to under 50 in the 656-member parliament.

In the other three state elections yesterday – in the Saarland, Mecklenburg-Vorpommern and Thuringia – the FDP failed to cross the 5 per cent hurdle needed to get into the state parliaments. But it managed it in the federal parliament, which means that Mr Kohl's coalition can just survive.

The man who really had cause to celebrate, however, was Mr Gregor Gysi, the parliamentary leader of the PDS, the Party of Democratic Socialism, based on the old communist party of East Germany.

For according to mid-evening predictions, he and his colleagues were set to win four seats in east Berlin outright on the first vote, giving the party the right to full parliamentary representation of around 27 seats.

"It would have been good if we could have forced a change of government," he said. "But for the PDS, this was an historic achievement, because we did it against the opposition of all the other parties."

SPD leader Rudolf Scharping gets a kiss yesterday from a wellwisher in Lahnstein — Reuter

The PDS is also left holding the balance of power in both the east German states which voted last night.

According to the latest projections, the party polled 23.2 per cent in Mecklenburg-Vorpommern, against 38.9 per cent for the CDU and 27.8 per cent for the SPD.

That means that the two big parties will have to form a coalition, unless the SPD does a deal – against everything the party leadership has promised – with the PDS.

In Thuringia, the PDS was forecast at 17.5 per cent, against 43.2 per cent for the CDU and SPD 28.9 per cent.

Neither the FDP nor the Greens managed to gain 5 per cent, leaving the PDS again controlling the balance of power.

The one party which suffered a complete defeat was the far-right Republicans, who looked unlikely to gain even 2 per cent of the vote, leading most political commentators to predict a total eclipse of the coming years.

The support of the PDS remains overwhelmingly in east Germany, where the party was forecast last night to win some 19.2 per cent of the vote, against just 0.9 per cent in west Germany.

The largest party in the east remains Mr Kohl's CDU, with a predicted 39.7 per cent, while the SPD was expected to win 31.5 per cent.

In the Saarland, the third state to vote yesterday, Mr Oskar Lafontaine of the SPD narrowly retained his overall majority but saw a drop to around 50.1 per cent of the vote, compared with over 54 per cent four years ago.

Yet again, the FDP failed to get into the state parliament, although the Greens were on the verge of doing so, with 4.9 per cent.

FDP members jubilant after clearing poll hurdle

By Michael Lindemann in Bonn and Judy Dempsey in Berlin

It was all over in a second. An empty blue television screen, then a pie chart. First the two big parties and then yells and cheering of the sort reserved for football terraces: the Free Democratic party had made it back into parliament.

People threw themselves into each other's arms, managing only just to keep their drinks in their glasses. The first exit poll showed the FDP had won 7 per cent, 4 per cent less than in 1990 but enough to get its representatives back into the Bundestag, the lower house of parliament.

For the first time in years it was a close shave for the party, which has only once scored more than 12 per cent.

In recent weeks polls had shown FDP support slipping steadily. One poll even gave the party 4 per cent, a result which would have left it outside the federal parliament for the first time since the second world war.

The party lost out in five state elections this year and also lost its seats in the European parliament. Many people who had previously voted FDP now wondered whether there was any point: the liberals had moved too close to Chancellor Helmut Kohl's Christian Democratic Union, they said, and given up the civil rights and free market economics they once stood for.

Even as Mr Klaus Kinkel, the foreign minister and FDP leader, pushed his way through a forest of cameras, some party members warned that the bad result meant his days as party leader were numbered.

"This is a very poor result for the party leadership," said Mr Tobias Gärtner, a 21-year-old who runs the Young Liberals in the northern state of Schleswig-Holstein. "I've met (Kinkel). He's very nice. . . but he's no good for the job of party leader. He's a civil servant. He doesn't have what it takes."

The PDS was helped by the governing Christian Democrats who repeatedly accused them of being fascists painted red

At Berlin's Congress Hall, meanwhile, the Party of Democratic Socialism was holding its election party. "We voted for the PDS because we want them to be the voice of the east Germans in the Bundestag," said Karin Neubert.

The hall was awash with posters of Mr Gregor Gysi, the charismatic parliamentary leader of the PDS, with his recognisable round silver rimmed spectacles.

The shouts went up whenever fresh exit polls came in. The PDS had succeeded where the other parties failed.

It relied on a loyal and large grassroots organisation whose members are known locally. It tapped the vote of former Communist party members, many of whom were dismissed from their jobs after unification and who now feel marginalised. It managed to act as a protest party for the unemployed. Above all, it acted as the party which could represent the voice and interests of the east Germans.

Mr Gysi frequently referred to the free and widespread kindergarten system, holiday camps for children, and the sense of solidarity among people under the communist system, all of which virtually disappeared after unification. The unique act of combining a sense of nostalgia for the past with providing some sense of east German identity won over the voters, even the younger generation.

Indeed, like the other former communist parties in eastern Europe, the PDS represents one of the phases in the transition from a communist to a post communist culture.

The PDS, however, was undoubtedly helped by the campaign run by Chancellor Kohl's governing Christian Democrats, who repeatedly accused the PDS and its supporters of being fascists painted red. "It played right into our hands. It was free advertising. It made east Germans, many of whom never supported either the former communists, or even the PDS, swing over to us," said Mr Lothar Bisky, leader of the PDS.

The other success of the PDS was the weakness of the Social Democrats, which failed to establish itself as a left-wing party both in east Berlin and throughout eastern Germany, as well as the other political parties.

Haitians stay calm as Aristide resumes power

By Ted Bardacke in Port-au-Prince

Haitians largely heeded the call of their returned president, Jean-Bertrand Aristide, to relax and avoid violence in the wake of his return over the weekend to Haiti after more than 3 years in exile.

President Aristide did his part to keep the peace by remaining in the presidential palace on Sunday morning, skipping a mass he was scheduled to attend.

The president's low profile was a victory for US security forces who are afraid that numerous public appearances would make Mr Aristide an easy target while simultaneously whipping his supporters into a fervour that could get out of hand.

The president made a speech on Saturday inside a box of bullet-proof glass and was never got within 100m of the general public. At the same time US army vehicles circulated amongst the crowd playing anti-violence messages through huge loudspeakers.

In the speech from the steps of the national palace to a crowd of fewer than 100,000, far less than organizers had expected, Mr Aristide pleaded with his people to shun the violence that has torn this country apart for the past 3 years of military rule.

At one point he asked the crowd to take an oath against vengeance and for reconciliation. The crowd reply affirmatively with a roaring "yes."

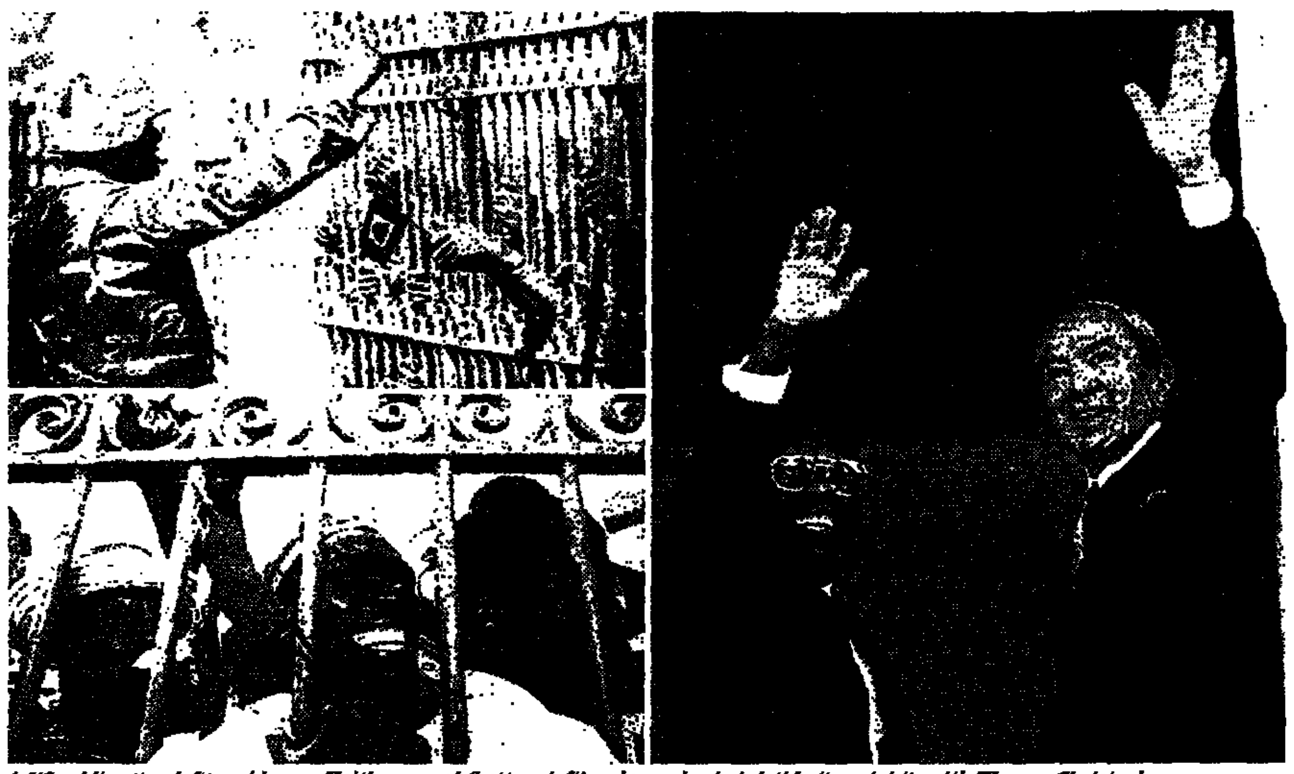
Mr Aristide's sway over much of the population, even among those who did not attend the rally, was evident. "Aristide told us to stay cool, so we are going to stay cool. We love the man," said Ms Dienla Paul as she walked to church on Sunday morning.

Some are questioning how long the president, known for his love of mixing with the people, can remain inside his box and still have his anti-violence message remain effective beyond this honeymoon period.

Already there have been reports of at least three attacks on supporters of the military coup in the countryside, where Mr Aristide's call may be more faint and the US military presence is less forceful than in the capital.

The task of rebuilding the country's economy and spirit will nevertheless be easier now that there is a government that can begin work.

"We have a few meetings scheduled for later this week," said Lt Raymond Kelly, head of the international police monitoring programme. "The government knows what needs to be done, it just has to move forward quickly while everything is calm."



A US soldier (top left) and happy Haitian crowd (bottom left) welcome back Aristide (top right), with Warren Christopher Reuter

Big brother's Haiti blueprint

Ted Bardacke on US efforts to create a workable government

As soon as Haiti's President, Father Jean-Bertrand Aristide, stepped out of a US military helicopter on to the grounds of his national palace, Mr Warren Christopher, US secretary of state, was studying his every move.

The Americans have made a big investment, both political and financial, in bringing Fr Aristide back to power, and now they want their dividend: a stable Haiti.

That is why, on leaving Haiti late on Saturday, Mr Christopher stressed the US would continue its military presence until the country was "secure", and President Aristide would be firmly pushed to bring his enemies into the political process.

In the task of "institution building", Haiti would receive important guidance from the state department's Agency for International Development (USAID).

As the US military's Haiti mission was ambiguous on arrival and largely shaped by events on the ground, the US blueprint for creating democratic institutions and ensuring development of a political centre that will hold is in a constant state of revision. "Developing policy in Haiti is like going around a blind curve at 100mph," says one USAID official.. You simply don't know what's next."

Nevertheless, the central issues, culled from previous US experience in El Salvador, Panama and South Africa, have largely been defined. The Aristide government is being pressured to construct a wide political centre that shuns mob violence and paramilitary terror, wrest judicial tasks away from the army and police force, and build up other branches of government, notably the legislature and municipalities.

Crucial to completing these tasks is finding the right mix of reconciliation and justice. But here, US policy officials are divided. Some feel a Truth Commission which would name those responsible for the estimated 5,000 murders under the military government but not prosecute them would be enough to calm many of President Aristide's followers.

By doing this, President Aristide could quickly change himself from a polarising force into a cohesive, healing figure, similar to the political transformation undergone by his friend Nelson Mandela. But unlike the anonymous death squads in El Salvador, Haiti's killers are well-known public figures and President Aristide, without being specific, seems to be leaning towards some form of prosecution.

"Aristide understands the need for reconciliation but not so far as to establish impunity," said a US official who believes if Haitians are ever to believe in their justice system, they must be shown that it can produce upright results.

Still, President Aristide may find that forgiveness is politically more astute, given his need to cajole moderates into legitimate political participation.

"In Haiti, you don't have a governing class, you have a ruling class," says Mr Rick Barton of the State Department's office of transition initiatives (OTI). He says that for the political system to be inclusive, a broad coalition willing to play by new and unfamiliar rules must be created, and to do this, people must feel as if they are not under attack.

The centre-right is expected to be held in check by liberal economic reform and what US officials hope will be a new prime minister from outside the president's inner circle. The violent and extreme right has to deal with the US military.

If a centre can be found and security ensured, then OTI's job of demobilising those ousted from the military for human rights violations will be easier. OTI is the brainchild of USAID head Mr Brian Atwood, who believes the cycle of poverty and humanitarian assistance cannot be broken until basic issues of governance are solved.

OTI will pay the salaries of former military and police officers for six months and voluntarily relocate them to other parts of the country, where their reputations are less of a threat to their own security. OTI teams will ask local community leaders to nominate upstanding young people as new members of Haiti's police force, who will then be trained by another state department agency.

Interim budgets for local judges, to be autonomous from the military and police force for the first time, is also part of USAID's financial assistance package. Bringing in mentor judges from the nearby French-speaking countries of Guadaloupe and Martinique is also being considered. Much of the Americans' political development plans and budget will go towards providing a check on President Aristide's power by attempting to strengthen other areas of government.

Programmes for raising tax revenue on a local level will be implemented, while the legislature is to be prodded into expanding the constitutional authority of local governments. The goal is to restrain both a president on the left and rural strongmen on the right.

Crowning glory for the last of his line

Russia's harassed president will meet Queen Elizabeth II today

John Lloyd looks at the royal visit

When Queen Elizabeth meets Mr Boris Yeltsin, on her first state visit to Russia which starts today, she will be greeting a man who is certainly the last of his line. No future president of Russia will be a former member of the Politburo of the Communist Party of the Soviet Union.

Mr Yeltsin has fought hard to avoid the fate of being "the Queen of England", as the decorative presidency to which the former Supreme Soviet of Russia wished to confine him was popularly known in Russian political circles.

But in that struggle, which reached its climax a year ago, he exhausted himself, unable now to muster the consistent energy needed to build institutions of democracy. That leaves him occupying one of the most powerful presidential chairs in the world without the appetite or will to use its power in a way which will fully meet the challenges which press on him.

From the Queen's point of view, the timing of the publication of Prince Charles's authorised biography has cast an unfortunate shadow over the beginning of her visit. That is not the only potential embarrassment. The last Tsar of Russia, Nicholas II, and the Tsarina Alexandra, both close relatives of the Queen's grandfather George V, were killed on Lenin's personal orders.

Mr Yeltsin, in his Bolshevik period, levelled the house in Ekaterinburg where the Tsar's family met their deaths, in order to remove its potential as a shrine and presumably to advance his career.

The bodies were buried in roadside graves from which they were exhumed only after the end of the Union of Soviet Socialist Republics: they have not yet been reburied, though are due to be, in the Peter and Paul Fortress in Petersburg, which the Queen will visit.

The last Russian royal family is thus unlikely to come up as a subject of conversation between the toasts.

Mr Charles Anson, the Queen's press secretary, said yesterday the issue had been discussed at diplomatic level but "the question of the reburial of the Russian royal family and the Queen's visit are entirely separate issues".

Though President Yeltsin has made at different times before different audiences denunciations of communism and has apologised directly to the Japanese for Soviet treatment of their prisoners of war, he has not alluded publicly to the circumstances of the Tsar's death. Russia is not and perhaps cannot be a penitent nation as Germany has been.

The British royal house also has a historical black spot which may inhibit it from pressing the matter.. King George V, a man who professed Nicholas II to be a close friend as well as a relative and so like him physically as to seem in photographs more a twin than a cousin, personally refused the Tsar's family visas.

Professor Dominic Lieven, in his biography of Nicholas, says "the King...took the lead in closing off the possibilities of asylum...fearful of reaction from British socialists and the labour movement, King George did not want his dynasty to be associated in the public eye with the hated and now fallen Russian Tsar, let alone with his half-English wife."

Awkwardness of a different kind now attends Queen Elizabeth II as she, a British monarch, comes to Russia for the first time. Still, the visit of western Europe's most prominent constitutional monarch serves the purpose of highlighting President Yeltsin's crowning achievement.

Like Mr Mikhail Gorbachev before him, he has realised, in what has been, for both men, the greatest test of their erratic but high courage, that it is not possible to take refuge for any length of time in the mailed fist.

The process which Mr Yeltsin inherited from Mr Gorbachev roars on: he rules over it a little more than the Queen rules over her kingdom, but not much.

INTERNATIONAL NEWS DIGEST

US defence chief on China visit

Mr William Perry, US defence secretary, got an enthusiastic welcome in Beijing yesterday at the start of a brief visit to discuss increased Sino-US defence co-operation. He is the first US defence chief to visit China since before the Tiananmen killings of June 1989, when China's military turned its guns on pro-democracy protesters in and around Beijing's central square.

Mr Perry was greeted by General Chi Haotian, China's defence minister, and other senior officers, including the deputy chief of the general staff of the People's Liberation Army and the commander-in-chief of the navy. The visit follows that of other senior US officials, including most recently Mr Ron Brown, commerce secretary, who headed an investment mission.

These exchanges indicate a desire on both sides to upgrade a sometimes fractious relationship. Among issues to be discussed are regional security, arms control, defence conversion and peacekeeping activities. US officials say there are no plans to lift sanctions on military sales to China imposed after June 1989. *Tony Walker in Beijing*

Chinese investment surges

Capital spending in China in July and August surged by more than 54 per cent per cent compared with the same period last year, adding to continuing worries about pressures on prices and an overheating economy. The State Statistical Bureau reported that the "overall scale of investment was still inappropriate". Fixed-asset investment in the first eight months far exceeded the 25 per cent growth target for the year.

The bureau said that to August, investment by state enterprises, which account for the bulk of capital spending, jumped by 44 per cent or Yn492.2bn (£33bn). Coastal regions were reported to be the main culprits in exceeding the capital-spending growth targets. The bureau's report accused the prosperous east coast provinces of wilfully ignoring government directives. *Tony Walker in Beijing*

Toy stores disarm in US

Toy stores across the US will this week be removing toy guns from their shelves, after a decision by some of the biggest retailers to stop selling weapons that could be mistaken for the real thing. The move has been prompted not by concerns that the sale of toy guns encourages violence, but because of safety fears. With many young people in the US these days carrying real guns, there is a danger that children carrying imitation firearms could be seen as a threat. In two incidents in New York over the past few weeks, youths brandishing toy guns have been shot by police who thought the weapons were real. One of the boys, a 13-year-old, died.

Toys "R" Us, the biggest US toy retailer, announced at the end of last week that it would stop selling all look-alike toy guns including western-style rifles and revolvers, plastic handguns and any weapons that could be modified to look real. It was joined by Kay-Bee Toy Stores, another big toy retailer, which said it would immediately start removing and destroying guns that resembled military or police-style weapons. *Richard Tomkins, New York*

Italian unions call protest

Italy's three main trade union federations have called for a mass demonstration in Rome on November 19, following up Friday's general strike to protest against proposed pension and welfare cuts. The unions also called for a further eight hours of strikes between now and the middle of next month. But most government ministers remained firmly committed to the 1995 budget, which looks to find savings and new revenues of L50,000bn (£20bn) to reduce next year's deficit.

Mr Silvio Berlusconi, Italy's prime minister, missed the general strike because he was on an official visit to Russia, but at the weekend he dismissed further industrial action as futile. "The government has inherited an economic situation with figures that no demonstration can alter," he told journalists in Moscow before returning to Italy. Friday's four-hour general strike paralysed Italian cities and angry but peaceful demonstrations attracted at least 3m people onto the streets, according to organisers. *Andrew Hill, Milan*

EU satellite liberalisation

The European Commission has used special powers to force through a directive on liberalisation of satellite equipment and services throughout the EU. The directive liberalises both establishment and operation of satellite networks, as well as associated satellite dishes, across the EU. The commission said the move would help businesses in retailing distribution and the financial sector along with similar potential users who have pan-European reqirements but limited means of exercising them.

"Due to liberalisation, a 10-fold increase in the volume of satellite communications before the year 2000 can be expected," said the commission. The situation in Europe contrasts sharply with the US, where an "Open Skies" policy in the early 1980s led to rapid stimulation of the satellite market. *Emma Tucker, Brussels*

UK-Argentine gas venture

British Gas and YPF, Argentina's privatised oil company, have been discussing the formation of a joint venture to explore for hydrocarbons in disputed South Atlantic waters. "We would both like to form a long-term partnership," said Mr John Bueno, general manager of British Gas Argentina. Such an alliance would, in addition to other projects, seek to explore waters between Argentina and the Falkland Islands.

British Gas already has a big presence in Argentina with important stakes in privatised gas distribution and power companies. But Mr Bueno stressed that talks between the companies could go no further until the British and Argentine governments had constructed the political framework within which exploration could proceed. Although Argentina was defeated in the 1982 war over the Falklands, it has not relinquished its claim over the islands, ownership of which was recently enshrined in the constitution. Buenos Aires disputes Britain's right unilaterally to exploit a non-renewable resource in internationally disputed waters. *David Pilling, Buenos Aires*

Confusion in Chechnya

The situation in Russia's breakaway Chechnya region grew ever more confused yesterday, when both the government and opposition forces claimed to have gained the upper hand after fighting in the capital, Grozny. The Chechen leader, Mr Dzhokhar Dudayev, appeared on TV to announce an attack by Moscow-backed opposition forces on Grozny overnight had been repulsed, Itar-Tass news agency said. But sources within the frail coalition of opposition groups said the assault on Grozny had been a reconnaissance mission which showed the city could be captured at any time. *Reuter, Moscow*

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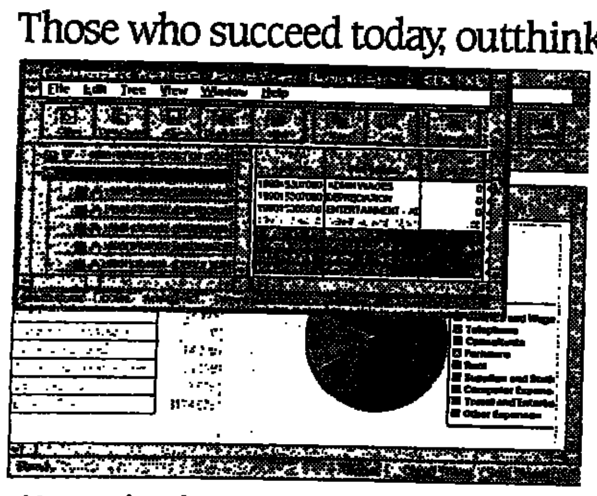

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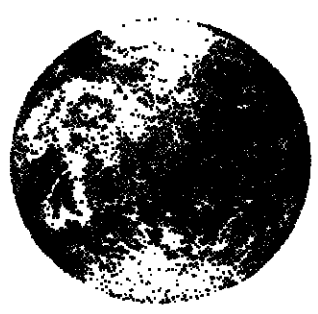

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NEWS: MIDDLE EAST

US warns Iraq on new build-ups

By George Graham in Washington and Michael Littlejohns in New York

Armed with a new United Nations resolution warning of "serious consequences" if Iraq once again menaces Kuwait, the US yesterday threatened immediate military action for any repetition of this month's huge Iraqi troop build-up near the Kuwaiti border.

Mr Warren Christopher, US secretary of state, said the UN resolution, passed unanimously by the Security Council late on Saturday night, put Iraq's President Saddam Hussein "on notice...that he must not again threaten Kuwait. If he does, we feel we have all the necessary authority to act against him. I think next time we'll probably not wait," Mr Christopher said yesterday.

The US does not expect to start withdrawing the tens of thousands of troops it has sent to Kuwait until several weeks after Iraq has completed the reversal of its own troop build-up. US officials said they were still watching two brigades near Nasiriyah, although the Iraqi troops appeared to be moving in the right direction.

Washington is anxious not to have to perform the same costly troop deployment all over again, weeks or months from now, if Iraq were to start moving troops back towards its border with Kuwait. The passage of Saturday's UN resolution followed a day of diplomatic wrangling in New York, as Russia and France quarrelled with the tough language proposed by the US and UK.

Russia demanded the inclusion of language welcoming "all diplomatic and other efforts to resolve the crisis," a reference to the mission of Mr Andrei Kozyrev, Russia's foreign minister, to Baghdad.

Mr Kozyrev is due to meet Mr Christopher in New York today; Mr Tariq Aziz, Iraq's deputy prime minister, was reported to be on his way to New York for talks with Security Council members. The next review of sanctions will be on November 14, which apparently is why Mr Aziz has decided to conduct yet another lobbying campaign, this time with help from Mr Kozyrev.

In a communiqué issued by Iraq and Russia after Mr Kozyrev's visit to Baghdad last week, Moscow promised to support an easing of the economic sanctions imposed by the UN, while Iraq offered to recognise Kuwait's borders and sovereignty. But the US remains adamant that Saddam should not be rewarded for stepping back from the threat he mounted 10 days ago. It continues to demand Iraq comply with the full list of UN resolutions against it.

"Our goal is to have him comply with all UN resolutions, all of them, including respect for ethnic minorities, including the return of Kuwaiti prisoners," Mr Christopher added. Arab diplomats say Mr Saddam is convinced the US will never allow the lifting of sanctions so long as he holds power, although he has never come close enough to compliance for this theory to be tested. Any possibility of relaxing sanctions depends on Baghdad's recognition of Kuwaiti independence.

Crackdown on Hamas raises stakes for Arafat

Julian Ozanne writes on the PLO leader's choices

Mr Yassir Arafat's crackdown on the extremist Islamic Hamas group has saved the Middle East peace process but has polarised Palestinian politics and raised the prospect of internal Palestinian conflict.

Last week's kidnapping and death of an Israeli soldier during a raid by Israeli forces on the kidnappers' hideout, starkly revealed the difficult political choices facing the Palestinian leader. Mr Arafat must keep the peace process going by conceding Israeli and western demands for a decisive blow against Hamas, at least its military wing. However, this would risk conflict or the possibility of continuing delays in the tortuous peace negotiations which each day erode his popular support.

Israeli cabinet ministers yesterday praised Mr Arafat's arrests of up to 300 Hamas activists in Gaza and decision to disarm the militant organisation which opposes peace with Israel.

The Israeli government, embarrassed by the fact that the kidnapped soldier was being held in the Israeli-occupied West Bank and not, as they had insisted, in Palestinian-controlled Gaza, said they would today lift the closure imposed on Gaza after the kidnapping. The cabinet also said it would resume suspended peace talks in Cairo tomorrow with the Palestine Liberation Organisation.

Mr Shimon Peres, Israeli foreign minister, said over the weekend that Israel was satisfied with Mr Arafat's "readiness to counteract the dangers of Hamas". However, Mr Arafat's moves against the underground movement has divided Palestinian society. Hundreds of Hamas supporters, angry at the continuing crackdown, rioted near a Jewish settlement in Gaza yesterday and threw stones at Israeli police.

Israeli Prime Minister Yitzhak Rabin and Foreign Minister Shimon Peres yesterday flew to Jordan to meet King Hussein, a foreign ministry spokesman said, Reuter reports. He said the three would try to iron out issues blocking a peace treaty. Israel and Jordan agreed in July to end 46 years of war.

On Saturday, up to 1,500 Hamas supporters demonstrated outside the Gaza central prison demanding the release of their activists. Palestinian police, anticipating further protests, yesterday increased security across the Strip. Weekend statements by Qassam, the military wing of Hamas, threatened Israel with more kidnappings and Mr Arafat with bloodshed if he continued his crackdown.

Hamas officials accused Mr Arafat of being the "poodle" of Israel, of carrying out "Zionist" policy by proxy, and of passing information to Israel about the location of the kidnappers. Hamas also blamed Mr Arafat for the death of three of its gunmen in the raid on Friday. "If these arrests continue, Qassam brigades will reply by setting the Gaza Strip ablaze on the heads of the Zionists and their lackeys," one statement warned.

Despite Hamas threats of violence, both groups know they have more to lose than gain from confrontation. Mr Arafat's aides have repeatedly warned that the benefits of the peace process are still too few and limited to ensure success of the pro-peace forces.

Furthermore, Hamas is believed to have at least 15-20 per cent bedrock support in Gaza as well as a motivated and disciplined underground military wing.

Hamas has built up an impressive social welfare network across the Gaza Strip and West Bank, of schools, health clinics, the Islamic University in Gaza and benevolent societies that continue to spread the doctrine of Islamic values and build the organisation.

Orthodox Jews hang an obituary sign for kidnapped soldier Nachshon Waxman yesterday AP

Hamas will be cautious to risk a conflict which could see its institutions destroyed and leave it blamed by Palestinians for civil war. "Hamas and the PLO have to live together in Gaza," said Mr Roni Shaked, a Hamas expert at the Yediot Ahronot newspaper. "Both of them know if they cross the red lines they are going to destroy what they have achieved, because civil war inside Gaza Strip means the end of everything, and probably the return of Israeli occupation."

But Mr Arafat must meet Israeli and western demands and strike a blow at Hamas to keep the peace process going. He is clearly hoping to separate the political wing of Hamas from the military wing, and has indicated he will not release detainees associated with the Qassam brigades.

If his strategy pays off, and Hamas, concerned about the potential threat to its institutions and convinced that eventually the tide of Islam will be triumphant, allows him to curb Qassam, then the threat of widescale violence could be avoided. In the long term, Mr Arafat knows the battle against Hamas must be fought economically and culturally, alleviating the poverty and sense of alienation which breed extremism.

INTERNATIONAL PRESS REVIEW

Tabloids find room to praise heroism

IRAQ

By Mark Nicholson

Tabloid journalism is increasingly a necessity in Iraq. Two of the country's leading dailies, *al-Jumhuriya* and *al-Qaddissiya*, have both in the past few months shrunk from broadsheet to tabloid format for want of newsprint in sanctions-hit Baghdad. Gone are the sports pages and much of the local news – there is not a lot of advertising either.

But each of Iraq's main dailies yesterday, as all days, found plenty of room to bash away at their favourite topics: the heroic wisdom of President Saddam Hussein and the perfidious treachery of the west and above all, of course, the US administration.

With extraordinary synchronisation, all the main dailies' photo editors chose for the front pages a low-action shot of Mr Saddam sitting at the head of a meeting of the Revolutionary Command Council, Iraq's highest ruling body.

"Arab and world resentment at heinous American campaign against Iraq," blazed al-Jumhuriya. "Russians threaten to use veto at Security Council." "Washington prolongs the embargo to justify petroleum and financial interests in the region," roared al-Qaddissiya. "President presides over meeting of RCC," said *Babel*, Iraq's newest tabloid, edited by Mr Saddam's son, Uday, less blazingly.

Inside Iraq's dailies, the tone is as consistent as the photographs – one of indignant self-righteousness laced with mockery. "Any military officer or analyst with a reasonable degree of insight," intoned *al-Thawra*, the ruling Baath Party newspaper, "would be astonished at the biased American claim that two divisions (of Iraqi troops) could attack Kuwait and occupy it, since it is logistically impossible."

In unison, all the papers hail Russia and Mr Andrei Kozyrev, the Russian foreign minister, who takes to the UN this week proposals that Iraq recognise Kuwait in exchange for some movement on the embargo – although Iraq's papers fail anywhere to specify directly that Mr Saddam might recognise Kuwait. Al-Jumhuriya speaks only, and typically, of "protecting the sovereignties and territories of the region's countries, whether Iraq or Kuwait".

So, "Has a world coup taken place? Is the Iraqi victory nearing," asked the editor of al-Jumhuriya. Of course, yes: "With the failure of the American 'TV game' in Iraq, the TV success which Clinton wanted to bolster his very weak internal position has also fallen." Mr Clinton, the successor of "Bush the famous criminal", and his regime are reported variously as "sick", "unstable" and even "conniving with little pygmies".

Sanction-weary Iraqis will remain sceptical. For most, it is the small stories tucked away inside the papers which actually mean things.

Such as the story telling motorists who have lost their oil ration coupons that they can now re-register. Or, on the back page of Babel, which has made itself Iraq's campaigning paper, the list of the day's donors to the newspaper's fund for the poor. Yesterday this included Ahmed Rathi and Laith Hussein, two Iraqi soccer stars playing in Qatar, who each donated ID40,000.

Or, the despatch from Basra telling how prices of basic commodities fell during the past few days as tensions lessened. A 50kg bag of sugar fell to ID18,000 from ID25,000, while 50kg of flour fell from ID8,000 to ID7,000.

Ceasefire in verbal war

KUWAIT

By Robin Allen

For the past 10 days, a ceasefire has broken out in the traditional rivalry between Kuwait's three main Arabic dailies. The reason: for the second time in four years, Iraq seemed to be threatening Kuwait's very existence.

The satirical wit of Kuwait's celebrated cartoonists was aimed at Saddam Hussein rather than members of the government or rival factions of the opposition; and the subtle barbs of laborious editorials, composed by editors-in-chief who are often newspaper owners, were kept for those who seemed to be slow in showing support for Kuwait.

All the dailies have run extra pages devoted to the crisis; the English-language daily *Arab Times* broke all tradition by publishing on the Friday weekend: while the owner of *Al Qabas*, which many regard as the leading daily in both circulation and quality, outdid himself in devotion to the cause, by voluntarily giving up the Crime Watch column. This is an episodic discussion among Kuwaitis about the rising crime rate: hardly a suitable talking point when attention needed to be focused on the chief enemy in Baghdad.

However, Arabic newspaper editorials and opinion columns kept their place on page one; a reminder that in Kuwait, as in many other Arab countries, those in authority imagine their views on current affairs to be more important for the reader than straight news.

Extraordinarily, in a country of just over 1m Arabic-speakers, Kuwait has five daily Arabic papers, plus two Arabic weeklies and two English-language dailies for the small minority of non-Arabic-speaking expatriates who would want to read an English paper.

China cadres lose touch of luxury

By Tony Walker in Beijing

Chinese Communist party cadres learned at the weekend that life in the fast lane would lose some of its allure as new regulations outlawed official use of imported luxury cars such as Mercedes and Cadillacs.

According to a directive from the party's central committee, high-ranking officials, including ministers and provincial governors, must ride in cars made in China. The regulations stipulate that imported vehicles be replaced by locally made models.

If the regulations are enforced, Chinese officials will be deprived of one of their more cherished privileges. Like gold wrist-watches and expensive fountain pens, an imported luxury limousine had become a coveted symbol of advancement for status-conscious representatives of the proletariat.

No mention was made of any effect on top leadership figures, such as politburo members, who travel in fleets of black Mercedes.

Apart from Mercedes, Cadillacs, and Lincoln Continentals, other favoured foreign brands include BMW and Lexus. None of these marques is assembled in China.

The central committee directive seems certain to hasten the scramble among foreign automotive companies for the right to manufacture a luxury car in China.

Frontrunners in negotiations now under way are thought to include General Motors, which is offering a version of the Buick, Ford with its Lincoln, and Toyota.

In the short-term, the new rules will benefit Volkswagen's Audi and Santana models under manufacture in China. The Audi is widely used by middle-ranking officials, but has not been regarded as entirely suitable for minister and above.

China has been without a locally made luxury car since production stopped in the 1980s of the Red Flag limousine, whose generous dimensions were such that a meeting of the Politburo could be conducted in its capacious rear compartment. Chinese officials these days would not be seen dead in a Red Flag, which they regard as a bad advertisement for the modernising state.

Among those who might welcome the weekend edict are owners of luxury cars in Hong Kong.

In the past few years there has been a lively trade in stolen vehicles across the border into Guangdong province, where many have ended up in official hands, including those of the security apparatus.

The security organs throughout China appear to be particularly well equipped with luxury vehicles. In Beijing, black Mercedes with dark-tinted windows are a favourite conveyance of high-ranking officials of the public security bureau.

The new regulations follow last month's meeting of the central committee which resolved to clean up the Communist party's image.

Suharto to be challenged in court on decree

By Manuela Saragosa in Jakarta

Indonesia's political and economic stability belie the status and authority of the judiciary. It is a generally held view that President Suharto and senior cabinet ministers stand above the law and challenging authority at this level is largely taboo.

The next few weeks, however, will see two cases which challenge the government's authority at its highest level. Hearings on the first case start today and involve Indonesian environmentalists suing President Suharto for issuing a decree which allegedly allowed state money from a reforestation project fund to be diverted to non-environmental causes. While the president has said he will face the challenge, officials have also made clear that he will not testify.

In the second case, a prominent journalist, Mr Gunawan Mohamad, and former employees of the banned weekly magazine Tempo have filed a suit against Mr Harmoko, minister of information, challenging him for banning the magazine in June this year. Court hearings are expected to start within the next two weeks.

Environmentalists and journalists admit their chances of winning are slim but they remain undeterred. "Winning or losing is not the target here," said Ms Emmy Hafild, project co-ordinator at Walhi, the Indonesian Forum for the Environment, which is among the seven pressure groups bringing the case against President Suharto. "This suit is just a gesture."

Earlier this month, a Jakarta court established at preliminary hearings that the pressure groups and journalists have valid cases. Among other things, environmentalists are accusing President Suharto of "violating the principles of good governance". They have criticised him for not seeking parliamentary approval before allegedly diverting the money from the reforestation fund.

No fewer than seven environmental and legal pressure groups have joined forces to file the suit against the 73-year-old president. They are contesting a presidential decree, issued on June 2, which, they say, allowed about \$200m (£133m) from a reforestation fund to be used for developing a national aircraft industry.

Indonesia's forest fires fan fury in Malaysia

Kieran Cooke and Manuela Saragosa on an ecological disaster

In mid-summer, Malaysia and Singapore noticed something strange happening to the weather. On most days a thick haze, caused mainly by forest fires in neighbouring Indonesia, blanketed much of the Malay Peninsula. The authorities warned of the dangers to health. There were also air traffic control problems.

Indonesia has now admitted the extent of the damage, describing the fires as one of the worst ecological disasters in the country's history. "Based on the latest reports, the current fires have covered up to 5.1m hectares," said Mr Djamaluddin Suryohadikusumo, Indonesian forestry minister. In recent days, rains have doused many of the fires, but underground peat deposits continue to burn over an area larger than the Netherlands.

Within Indonesia, arguments over the cause of the fires continue, while Malaysia and Singapore worry about the effects of the haze. There have been worries about health; there are concerns that recent events could do serious damage to the multi-billion-dollar tourist industries of both countries, and in Malaysia there have been warnings of a dip in agricultural production.

The fires are believed to have initially broken out in early August, during a prolonged drought. At first, the Jakarta authorities did not seem over-concerned: the smoke did not affect the main Indonesian island of Java but blew north-west towards Singapore and Malaysia.

Mr Djamaluddin is adamant that about 90 per cent of the fires were started by local communities who practise a slash-and-burn form of farming to clear land for agricultural uses.

But environmental groups in Indonesia blame the fires on plantation companies who took advantage of a prolonged dry season to burn land and plant palm oil. They also point the finger at logging companies who, they say, are recklessly degrading forests and leaving large amounts of combustible débris behind.

Critics say the Indonesian government not only lacks the necessary equipment to try to control such fires; they contend it has shown little willingness to intervene and settle land disputes between settlers and logging companies, thought to be one of the other causes of the fires.

A fire on Kalimantan in 1982 destroyed a similar area of rain forest. "This present fire ranks as the worst," said Ms Emmy Hafild of the Indonesian forum for the environment, a leading non-governmental organisation. "This will happen every time we have a long drought, because most of our forests have been degraded."

Environmentalists are concerned about the increasing frequency of large forest fires in Indonesia. Apart from the big fire in 1982, serious blazes also occurred in 1987 and 1991. Neither Malaysia or Singapore have publicly criticised Indonesia over the fires. Malaysia has its own pollution problems, the result of eight years of more than 8 per cent economic growth, and is reluctant to lay all the blame on Indonesia. But there is also a wider issue.

Indonesia is seen much as the "big brother" of the Association of South-East Asian nations (Asean). Asean prides itself on solving its problems through consensus. This can mean potentially tough issues are often ignored. So far, the only outside help accepted by Jakarta has been an offer from Singapore to give more weather information.

Ford and Mazda may link in Europe

By Kevin Done, Motor Industry correspondent

Mr Alex Trotman, chairman and chief executive of Ford, the US vehicle maker, said the group would decide "within the next month" whether to produce cars in Europe for sale under the Mazda badge.

Such a project has previously been rejected but it has been revived this year following moves by Ford to establish a stronger influence over Mazda management.

"We are studying again whether it is in our interests to give Mazda a Ford-based vehicle in Europe," said Mr Trotman. It would be "a small passenger car" and lead to higher levels of capacity utilisation at Ford plants in Europe.

Mazda, which is 24.5 per cent owned by Ford, is the only one of the leading Japanese carmakers without a car production base in Europe. Its sales in west Europe have fallen by 10 per cent in the first 9 months this year compared with a growth of 5 per cent in the overall market.

It is expected that a Mazda-badged Ford would be based on either the Ford Fiesta or Ford Escort and built at one of Ford's European assembly plants in Germany, the UK or Spain. Under a long established arrangement some Mazda vehicles are sold under Ford badges in Asia. In Japan the Mazda 626 and the Mazda 323/Familia are sold respectively as the Ford Telstar and the Ford Laser.

Mr Trotman said that Mazda was unlikely to be used again to engineer a mainstream car to be produced and sold by Ford in North America or Europe, as was the case with the North American Ford Escort developed by Mazda.

"If we can design at the lowest cost and we have the human resources we will do it," he said. It was "very likely" that the next generation Escort for the European and North American markets would be developed by Ford in Europe, he said.

Korean group in engines deal with Rover

By Kevin Done

Rover, the UK subsidiary of BMW of Germany, has signed an agreement with Kia, the second largest South Korean carmaker, to jointly develop a new range of engines to be built in the UK and Korea.

Rover said that the joint engine development programme, the first it has undertaken with a rival carmaker, would involve an investment of around £30m (\$47.4m).

It is understood that the agreement with Kia is for the development of a range of V6 engines that will be developed from Rover's existing K-Series small car engines.

The 2.5 litre Rover V6 is expected to be fitted first in the UK carmaker's flagship Rover 800 executive car late next year replacing the Honda V6 engine currently imported from Japan. It will be produced at Rover's Longbridge, Birmingham plant.

The Kia version of the V6 engine will be produced in Korea for use in a new range of Kia executive cars under development.

Rover is in the midst of an ambitious programme to develop the highly successful K-Series engine in order to give it far greater independence from Honda, its Japanese partner, in engine production.

The K-Series, which was launched in 1.1 and 1.4 litre versions in 1989 after a £200m investment programme, is also being developed in larger 1.6 and 1.8 litre versions for use respectively in the new Rover 400 family car and MG sports car ranges to be launched next year.

Separately Rover expects to begin its first car assembly in East Europe in spring next year with the start-up in Bulgaria of joint venture production of its Maestro small family car range.

In Bulgaria, where Rover has formed a joint venture with the Sofia-based Daru group, the UK carmaker expects to begin assembly of the ageing Maestro at a plant at Varna on the Black Sea coast in the spring next year.

Output is expected to total 3,000 in 1995 and could rise in later years to 10,000 annually including exports to other east European markets.

Assembly in Bulgaria will be on the basis of SKD (semi-knocked down) kits supplied from Rover's Cowley, Oxford plant. Painted bodies will be shipped from Cowley to Varna for local final assembly, but Rover is aiming to increase gradually the purchase of components in Bulgaria.

Production of the Maestro – launched in 1983 – for the UK market is expected to cease by the end of the year. Rover investment in the project is expected to total £2m-£3m.

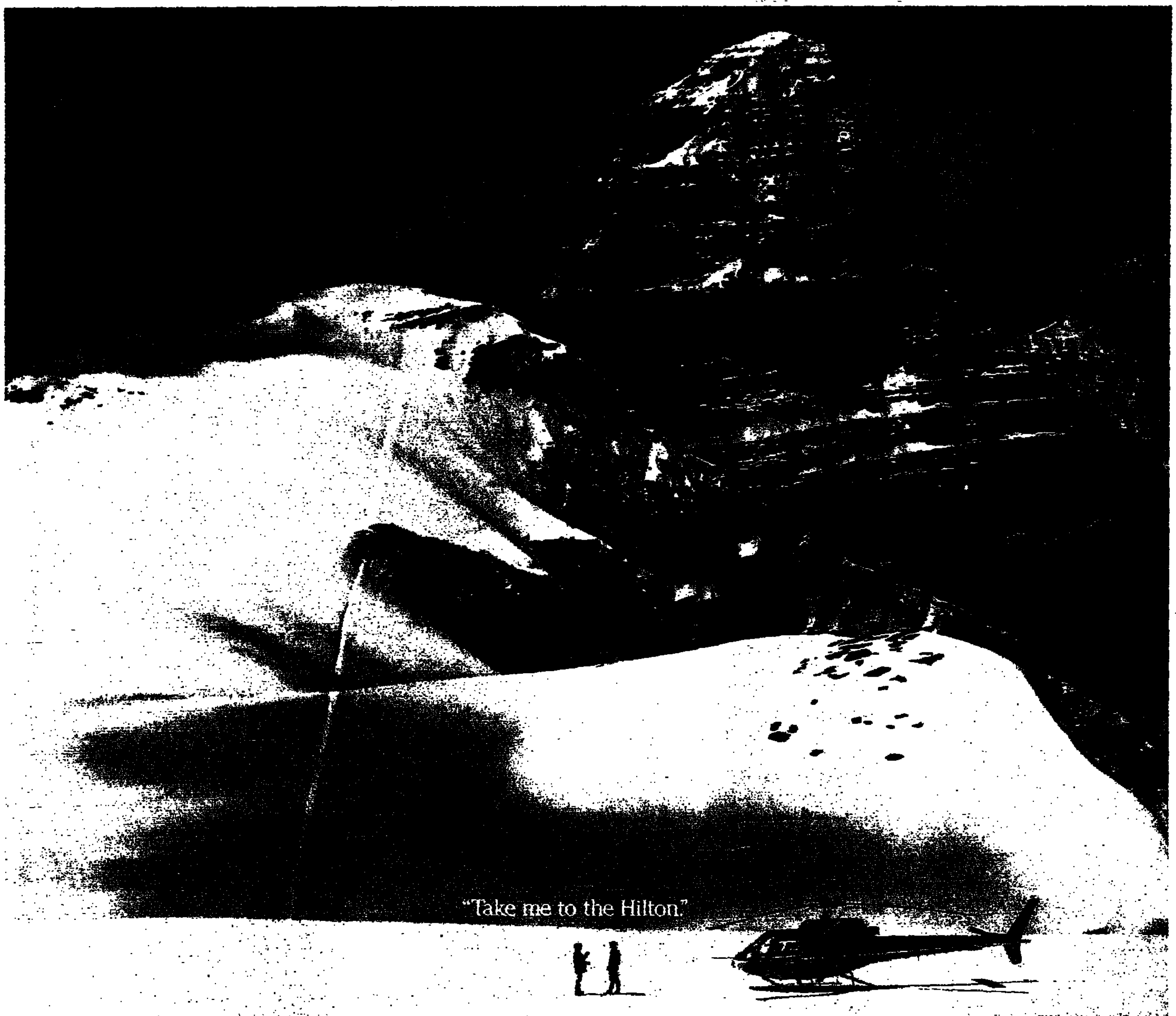
Rover has taken a 51 per cent stake and management control in the joint venture. Daru, which will hold 49 per cent and is already the local BMW distributor, has also been appointed the distributor for Rover and Land Rover vehicles in Bulgaria.

The two groups have put out to local tender contracts for the conversion and refurbishment of a factory in Varna, which will be used for the Maestro assembly.

The Rover group has taken several moves to internationalise it operations this year. These include:

- An agreement earlier this month to invest £10m in a new assembly facility and sales and marketing organisation for Land Rover Discovery and Defender models in South Africa with assembly taking place at an existing BMW plant at Rosslyn, near Pretoria.
- The production under licence in Brazil by Iochpe-Maxion of the Land Rover 300Tdi diesel engine.

Rover is also seeking to develop further a memorandum of understanding it has signed with the Sipani group in India for the local assembly of the Montego large family car and Rover's two-litre turbo-diesel engine.



Accounts show 514% rise for Octav Botnar as company records loss of £11m

Nissan UK chairman is paid £1.94m

By Kevin Done, Motor Industry Correspondent

Mr Octav Botnar, the chairman of Nissan UK, for whom an arrest warrant has been outstanding for more than 2½ years, was paid £1.94m ($3.06m) last year in his role as chairman of Nissan UK Holdings (NUKH) and its subsidiary Nissan UK (NUK).

His emoluments, excluding any pension contributions, increased by 514 per cent from £316,000 in the previous year according to the latest annual reports filed by NUKH and NUK for the year ended July 1993.

Mr Botnar is also chairman of Automotive Financial Group Holdings, which owns AFG, one of the biggest UK motor dealer groups and a sister company of Nissan UK Holdings.

According to annual reports now filed for both holding companies, Mr Botnar increased his total pay from the two groups to £5.75m in the year to the end of July 1993, a 1,189 per cent increase from £446,000 in the previous year.

NUKH, which had a turnover of £15.55m in the year to the end of July 1993, made a pre-tax loss of £11.34m and paid its directors £5.6m in total emoluments.

The company, whose ultimate parent undertaking, according to the annual report, is the Panama-incorporated European Motor Vehicles Corporation, now has only two directors, Mr Botnar and Mr Manfred Weder, a Swiss national and company director, according to NUKH filings at Companies House.

Payments were made to a total of seven directors during the financial year, but five of the seven are no longer directors. The annual report says that £1.028m was paid in "compensation for loss of office to former directors" as part of the £5.6m in total emoluments.

The second-highest-paid director after Mr Botnar received between £1.86m and £1.865m.

The report says that Mr Michael Hunt resigned as a director on June 28 1993.

Mr Hunt was sentenced on June 30 last year to eight years in prison for his part in Britain's largest-ever tax fraud, in which he was convicted for conspiring to defraud the Inland Revenue of £55m in corporation tax.

Mr Hunt's appeal against conviction and sentence were rejected on all counts by the Appeal Court in May.

In July he was given leave to appeal to the House of Lords, when the Court of Appeal certified that the case raised a point of law of general public importance.

An arrest warrant was issued in January 1992 for Mr Botnar, aged 80, who is living in Switzerland.

Feudal claim alarms island

By Bill Brown in Jersey

A private Jersey-based development company is using a feudal title to lay claim to the industrial foreshore of St Helier, the island's capital, estimated to be worth at least £1bn ($1.58bn).

Les Pas Holdings claims it owns the most developed section of the foreshore, including most of the island's busy harbour, the main power station, the fuel farm, a new underpass and most of a big area of reclaimed land.

The claim is being vigorously contested by crown officers in Jersey, largest of the Channel Islands. The figure at the centre of the bizarre wrangle is Advocate Richard Falle, one of the island's leading lawyers and a director of Les Pas.

Eight years ago he and a group of businessmen submitted plans for a commercial marina which they said would help alleviate the island's housing problem and boost tourism. The plan has been strongly opposed by conservationists.

At about the same time Les Pas also acquired the seigneur's feudal rights, known as Le Fief de la Fosse. This includes rights over the foreshore that traditionally extended as far as the seigneur could ride his horse into the sea at low tide.

Mr Falle said he has become so frustrated by delays over the marina plan that he is invoking the ancient title. "I am bitterly disappointed with what I believe to be politicking at every level," he said.

Miss Stephanie Nicolle, the island's solicitor-general, has confirmed that if Les Pas won, it would own everything built on the disputed territory in perpetuity. In a letter to a senior civil servant, she warned: "The consequences of failure [by the authorities to win] do not bear contemplation." Mr Falle said he is prepared to fight all the way to the European Court to secure what he believes is Les Pas's rightful title.

The area of Jersey's capital which is in dispute includes its harbour and power station

200 managers are told to apply for 100 jobs

By Peter Marsh

Legal & General, one of Britain's biggest insurance companies, is in effect sacking half its top life-products managers by asking all 200 of them to re-apply for only 100 jobs.

The managers who survive the cull will be hired on new contracts. These will tie remuneration to factors such as ability to cope with customer demands and compliance with new insurance industry regulations, and not to sales volumes.

The aim of the reorganisation, to take effect next month, is to emphasise L&G's commitment to a highly ethical method of selling pensions and other life products after recent public criticism of life-industry sales practices. The changes come as the Securities and Investments Board, the chief regulator of financial institutions, finishes drawing up a report which sets out mechanisms for dealing with compensation claims from people who believe they were mis-sold pensions in the late 1980s and early 1990s.

L&G said its management changes were linked to the need to improve standards among its managers and agents selling life products. It aimed to keep "the best people".

As part of the reorganisation L&G is greatly reducing opportunities for managers to earn big sums from agents' sales.

Instead of L&G managers' earnings being based partly on an "override" of agents' own sales commissions, these executives will have a basic salary of about £15,000 ($23,700). Relatively small commissions will be paid on top of the basic salary.

L&G is instituting its new arrangements for managers as part of a plan to reduce the number of its sales agents.

Britain in brief

Lloyd's court fight to start tomorrow

More than 1,600 members of the Lloyd's of London insurance market will begin a fresh battle in the High Court this week to win compensation for losses in the 1980s.

The Feltrim Names' Association hopes to repeat the success of the Gooda Walker Action Group earlier this month in winning millions of pounds of damages for losses incured by underwriters involved in "spiral" insurance – by which underwriters agreed to cover others for excessive losses from catastrophes.

The Feltrim association is claiming a total of £600m ($948m) in three cases brought on behalf of Names, or individuals whose capital is made available to Lloyd's. The first, expected to start tomorrow, covers losses dating from between 1987 and 1989.

The case is the latest in a series of legal actions mounted by Lloyd's Names which may stretch into the next century.

The Feltrim case centres on allegations that insurers who underwrote the catastrophe "spiral" were negligent. Names on Feltrim syndicates were badly hit by a succession of disasters including freak UK wind-storms in 1987 and the 1988 Piper Alpha North Sea oil platform accident.

Non-executives working harder

The productivity of non-executive directors has increased by half in the past three years, says research by 3i, the company formerly known as Investors in Industry.

Non-executives are putting more time into helping companies while not asking for more pay, says the 3i survey. In 1991 non-executive directors devoted 15 days a year to working on the affairs of each company on whose boards they sat. This figure has risen to 22 days a year, while the average fee per directorship has stayed at about £15,000 ($23,700) a year. 3i says this "spectacular" productivity increase reflects that most non-executives are "less concerned with the size of their fees than with being usefully involved". The report was based on a survey of 272 non-executives with a total of 767 appointments.

Investigation into fatal rail crash

An investigation has begun into a head-on collision between two trains in which five people were killed and 11 injured on Saturday morning. The accident occurred in dense fog on an embankment near Cowden in Kent, about 30 miles south-east of London.

The trains collided on a single-track stretch of rail converted from double-track five years ago. People living near the line, used mainly by commuters to London from small towns in west Kent and East Sussex, predicted at the time that a crash was inevitable.

Fleet discards diesel submarines

The Royal Navy's last diesel-powered submarine, HMS Unicorn, sailed into Devonport naval base yesterday flying her paying-off pennant. The navy acquired its first diesel-powered submarine in 1901.

The curtailment of Unicorn's service only 15 months after she was accepted into the navy was because of the end of the Cold War.

"We have to use the expertise and experience learned from these wonderful submarines and move into the all-nuclear era," said Rear Admiral Roger Lane-Nott, the Royal Navy's Flag Officer, Submarines.

OK whack, here's your Big Mac

McDonald's, the fast-food chain, has found that its service with a smile is proving too much to chew on for the British stiff upper lip.

Ms Carmell Flatley, the company's assistant vice-president of human resources, said a survey of staff and customers found that people had become unhappy with the "robotic" service in McDonald's restaurants.

McDonald's is now training its 550 restaurant managers to be more flexible and responsive to local needs. This would allow the use of colloquialisms and local dialect, it said.

If deemed fit by managers, McDonald's customers may be greeted by phrases such as "Eh-up, chuck," or "'Here's your Big Mac, whack". The company said it had never considered using the expression "Have a nice day" in Britain.

Plenary meetings nearer on N Ireland

By James Blitz in London and John Murray Brown in Belfast

Mr James Molyneaux, leader of the Ulster Unionist party, has opened the way to peace talks between the nationalist Sinn Féin party and the British government by endorsing the prospect of negotiations between both sides.

Amid clear indications that the British government will drop its insistence that an IRA ceasefire should be declared "permanent," Mr Molyneaux said yesterday that negotiations between London and the Irish nationalists would be a "very, very important development."

Speaking for the first time since the declaration of last week's reciprocal ceasefire by loyalist organisations, Mr Molyneaux said he did not see the word "permanent" as an essential obstacle.

His comments come amid strong expectations that Mr John Major will announce his government's readiness to initiate talks on the constitutional future of Northern Ireland in the next two weeks.

Mr Molyneaux made clear yesterday that he did not anticipate the UUP holding talks with Mr Gerry Adams, the Sinn Féin leader.

Asked whether he would shake Mr Adams' hand, he replied: "I don't quite see that happening for a long time because I don't see that we're going to be in the same company."

Speaking to his party's annual conference in Carrickfergus, Northern Ireland, on Saturday, Mr Molyneaux restated its misgivings about the peace process. He reiterated its opposition to the idea of cross-border institutions, which is expected to be one of the main innovations in the framework document which the governments of the UK and Republic of Ireland are due to agree in the next few weeks.

Representatives from Sinn Féin, together with the nationalist SDLP and parties in the Republic of Ireland, are due to hold meetings soon with Mr Albert Reynolds, prime minister of the republic, in a move to prepare for an early convening of Dublin's Forum for Peace and Reconciliation.

"Things are changing and they're changing pretty fast – a lot faster than people thought," Mr Reynolds said yesterday.

Behaviour of consumers a challenge for analysts

Easy profits are out and the canny consumer is king. That is the main message from the retail sector as it prepares to enter the crucial Christmas trading season.

But the question that will be raised this week, as a new set of retail data is published, is how far this cautious consumer mentality is affecting sales – and the instruments that are used to measure retail behaviour.

Consumers are adjusting to a new low-inflation environment, and the nature of the retail sector is itself changing. Making sense of the various sets of consumer data on offer is therefore becoming increasingly complex. For example, the official retail sales data, to be published on Thursday, suggest that retail sales grew steadily this year on the back of the recovery amid heavy price competition, but fell back in August.

Some analysts suspect this dip was due to the summer holiday. But others argue it points to a broader slowdown, not least because the Confederation of British Industry's own survey of distributive traders, published tomorrow, has recently been adopting a more sober tone.

The government's consumer spending data, published every three months, are even more downbeat. They suggest that sales of non-durable goods started to drop as early as the spring.

But this appears to be at odds with the Bank of England's data on the level of notes and coins in circulation, previously a good guide to consumer spending. These have been showing strong growth this year. Meanwhile consumer credit data, published last week, put borrowing at a record high.

For some economists this implies there might be defects in the official statistics, not least because many retailers say their experiences differ from the findings in the official data.

Mr Harry Moore, chief executive of Co-operative Retail Services, which has a variety of retail outlets including supermarkets and department stores, had little confidence in the figures. "I often ask myself, where the devil do they get these figures from," he said.

The main problem that may be confronting economists is that tracking consumer behaviour is particularly difficult because of broader changes occurring in this recovery. On the one hand, the nature of the retail sector is changing as large retailers gain market share at the expense of smaller ones and more retailers become multi-sector outlets. Meanwhile, as last week's inflation data showed, underlying inflation is at a record low, affecting retailers' perceptions and consumer behaviour.

The Central Statistical Office collects retail sales figures from about 5,000 retailers, and Mr Philip Gooding, CSO statistician, insists that the survey is representative. But Mr Richard Brown, deputy director-general of the British Chambers of Commerce, said: "The official data does seem to hide the situation of smaller retailers."

Gillian Tett and Neil Buckley

Search for electrical harmony nears end after 18 years

Draft plug standards issued

By Andrew Baxter

Proposals for Europe-wide standards on electrical plugs and sockets have been devised by a technical committee of Cenelec, the Brussels-based electrical standards body for Europe and published by the British Standards Institution.

Their appearance in the UK has moved controversy about the future of the UK's system of 13-amp plugs with three square pins into its final stages. The standards are for a system using a plug with two round pins and an adapter to facilitate changing to the Europe-wide system.

The standards are the culmination of years of lobbying among the 18 member countries of Cenelec, which run about 20 conflicting plug and socket systems. The Cenelec members will vote by March on the new system. If approved, conflicting standards such as the UK's BS1363, on which the 13-amp rectangular-pin plug is based, would have to be dropped unless opposing countries sought an exemption or derogation.

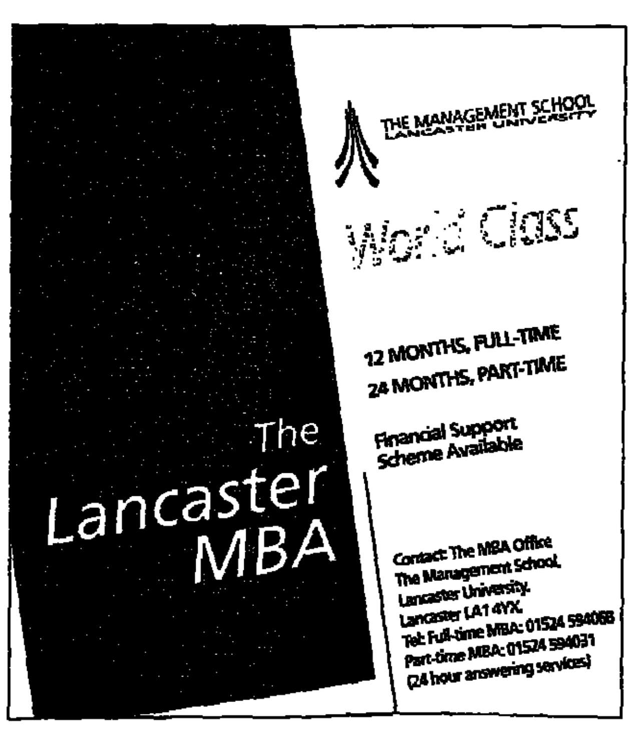
A technical committee of the British Standards Institution will cast the UK's vote, and the institution said it was establishing a deadline of December 31 for public comments, in order to give the committee a clear two months in which to assess opinion.

Mr Ian Campbell, head of the standards institution's electrical standards development department, said: "We want to make absolutely sure that we have reached a consensus in this country before entering the wider arena."

Some British safety experts have argued that the proposed plugs could be inserted dangerously into existing UK sockets and that the unfused European plugs would not be safe with British ring networks. European electrical supplies work on a radial network.

But supporters of the proposal reject these arguments, and say a standardised European system would benefit consumers and appliance manufacturers because of reduced costs and product compatibility across Europe.

CONTRACTS & TENDERS



Plenary meetings nearer on N Ireland

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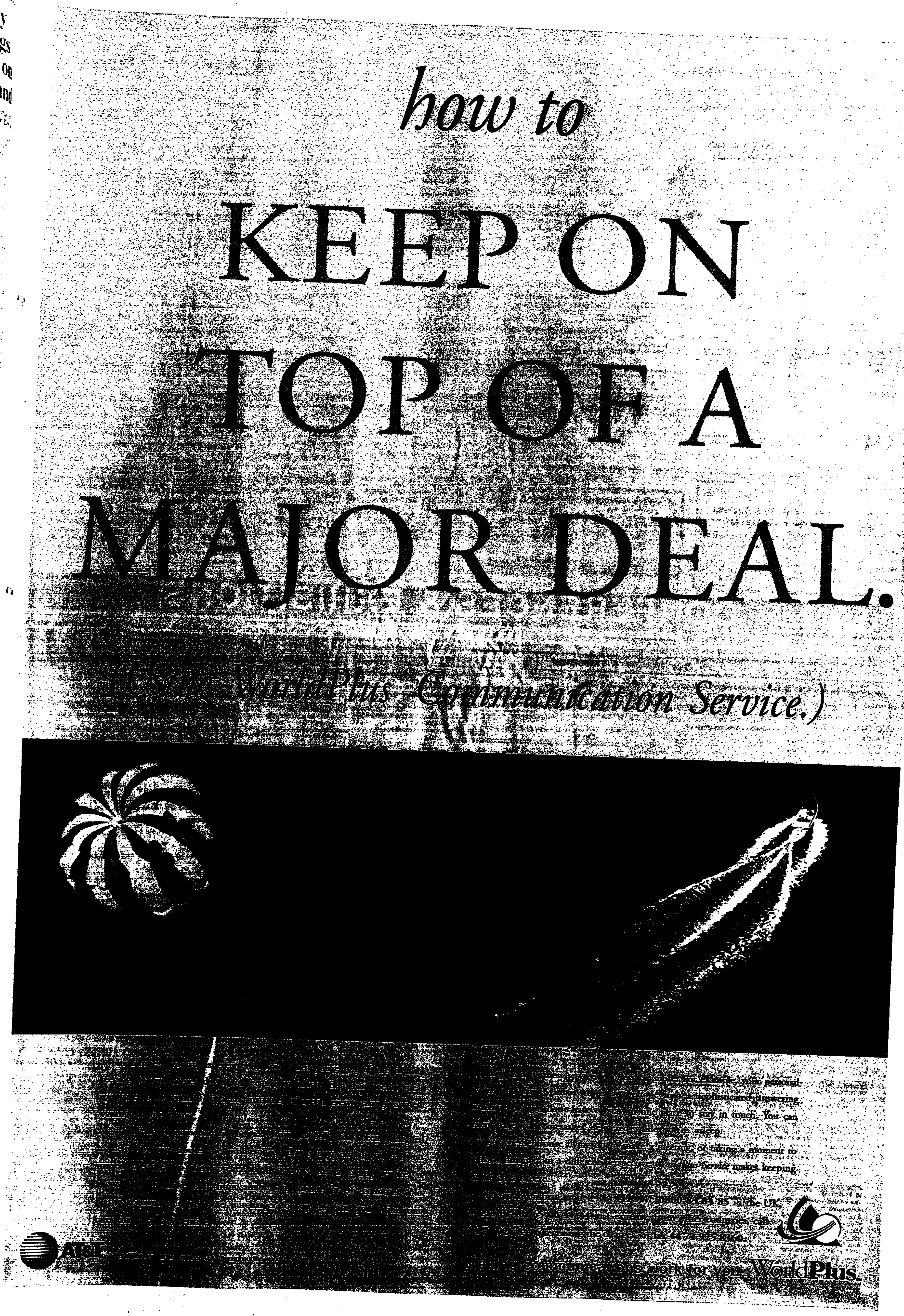


THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abbey National 5.7p
Aegon 7¼% Bd. Oct.'95 Ecu72.50
Commonwealth Bk Australia 11% Bd.'01 A$110.0
Forte FRN 1998 £1529.11
IMI 4.4p
JDC Gtd. FRN 1996 $242.81
Jasmine B FRN '03 Y1554583.0
Kawasaki H. 6% Nts.'97 Y600000.0
Do. 6.15% Nts.'99 Y615000.0
Kleinwort Benson 6.75p
Kyushu Elect. 10¼% Bd. '01 C$102.50
Met. Water Southwark & Vaux. 3% Db. £1.50
Mori Seiki 5.65% Nts.'96 Y565000.0
Motorola $0.07
Nat West Bank 9% Non-Cm. Pf. Ser.A 4.5p
Do. Non-Cm. $ Pf. Ser.A $0.532
Do. Ser.B $0.4375
Do. Exch Cap. Sec. Ser.A $0.492188
Sanwa Fin. Aruba Gtd. FRN July '04 $1419.79
Do. Gtd. Step-up FRN Oct.'02 $709.90
SmithKline Beecham A 3p
SmithKline Beech/SmithKline Beck. Eq. Units $0.05854
State Bank NSW 11% Nts.'95 A$110.0
Transatlantic Hldgs. 6p

■ TOMORROW
Albrighton 0.4p
Allied Lon. Props 5¾% Cv. Pf. 2.875p
Bradford & Bing. Bldg. Scty. FRN '99 £133.38
Conv. 9½% 2005 £4.75
Echlin $0.19
Eng. & Scottish Investors 0.55p
Finsbury Underwriting Inv. Tst. 1.35p
Halifax Bldg. Scty. FRN '95 £133.51
Kuala Lumpur Kepong M$0.05
News Corp. A$0.015
News Int. 0.72p
Nova Scotia 11¾% Ln.'19 £5.875
VHE Hldgs. 2.7p
WSP 1p

■ WEDNESDAY
OCTOBER 19
Lonrho Fin. FRN '97 $154.93
Vickers 1.75p
Wells Fargo FRN Jul.'97 $129.38

■ THURSDAY
OCTOBER 20
Adscene 4p
Bailey (Ben) Const. 0.3p
Budgens 5% Cv. Un. Ln.'03 £2.50
Dixons Fin. Gtd. FRN '97 $2636.98
Edinburgh Inc. Tst. 1p
First Spanish Inv. Tst. 0.25p
Isle of Man Steam Packet 1.75p
Islington 11.9% Rd. '17 £5.95
Jupiter Euro. Inv. Tst. 1.25p
Lon. & O'seas Freighters $0.0025
M & G Inc. Inv. Tst. 1p
Do. Geared Units 1p
Do. Package Units 1p
National Express 2.7p
Northern Rock Bldg. Scty. FRN '96 £135.48
Parkdean leisure 1.9p
Pendragon 2.7p
Pokphand (Bermuda) $0.00384
Do. (Hong Kong) HK$0.03
Do. (UK) $0.00384
RJB Mining 5.2p
Schroders 6p
Do. N/Vtg. 6p
Serco 1.25p
Throgmorton 1000 Small. Co's Tst. 2.5p
Utd Friendly 6.1p
Do. B (Rest/Vtg) 6.1p
Wholesale Fittings 8.47p

■ FRIDAY
OCTOBER 21
Appleyard 2.9p
Avonmore Foods IR1.65p
BBL Int. Gtd. FRN '99 $127.08
Boddington 3.15p
Brandon Hire 1.5p
Burnfield 1p
Common. Bk Australia Gtd. Un. Cap. Nts. $238.28
Crockfords 2p
Fosters A$0.0325
Govett High Inc. Inv. Tst. 1.04p
Home Counties News. 2.5p
Invesco 1.25p
Latin Am. Extra Yield Fd. $0.275
Mid Wynd Int. Inv. Tst. 3.7p
Nat West Bank Und. Var. Rate Nts. ($100000.0) $1418.33
North. Rock Bldg. Scty. Fltg. Rate Nts. '95 £67.74
Nottingham Grp. 1.84p
Perkins Foods 1.75p
Primadona 2.5p
Royal Insurance 4p
Smith (WH) 10.4p
TSB 10⅜% Sb. Ln.'08 5.3125p
Treasury 4⅜% I.L.'04 £2.2923
USDC Inv. Tst. 1.25p
Ulster Television 7.5p
Utd Carriers 1.6p
Welsh Indl. Inv. Tst. 4p
Wilson (Connolly) 1.36p
World of Leather 0.75p

■ SATURDAY
OCTOBER 22
Cyanamid (UK) 9.61% Gtd. Bd. 2007 £240.25
Eng. & Caledonian Inv. 2.75p

■ SUNDAY
OCTOBER 23
Costain Fin. 7½% Gtd. Pf. 2003 £61.46

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Headway, Cedar Court Hotel, Denby Dale Road, Wakefield, 10.30
Mid Wynd Int. Inv. Tst., 1, Rutland Court, Edinburgh, 11.00

BOARD MEETINGS:
Finals:
Gartmore British Inc. & Grwth Fd.
Highland Distilleries
London & Strathclyde Tst.
MY Hldgs.
Interims:
Acorn Computer
BMSS
Berry Birch & Noble
Bristol Scotts
Castle Mill
Farnell Elect.
Forward Technology
Kelt Energy
Richards
Riva

■ TOMORROW
COMPANY MEETINGS:
Eaglet Inv. Tst., New Connaught Rooms, Great Queen Street, W.C., 10.30
Merivale Moore, Grosvenor House, Park Lane, W., 12.00
Primadona, Knightsbridge House, 197, Knightsbridge, S.W., 12.00

BOARD MEETINGS:
Finals:
Hong Kong Inv. Tst.
Paterson Zochonis
Town Centre Securities
Interims:
Bedford (Wm)
Templeton Latin America Fd.

■ WEDNESDAY
OCTOBER 19
COMPANY MEETINGS:
Alumasc, Farmers & Fletchers Livery Hall, 3, Cloth Street, E.C., 10.30
First Spanish Inv. Tst., 48, Chiswell Street, E.C., 12.00
Foreign & Colonial High Inc. Tst., Exchange House, Primrose Street, E.C., 12.15
Molyneux Estates, Thames Exchange, 10, Queen Street Place, E.C., 10.30
Smith (WH), Millbank Tower, S.W., 11.30
Throgmorton 1000 Smallest Co's Tst., 155, Bishopsgate, E.C., 12.30

BOARD MEETINGS:
Finals:
DFS Furniture
Exmoor Dual Tst.
Smiths Inds.
Interims:
English & National Inv.
Glenchewton
Harrington Kilbride
Havelock Europa
London American Growth Tst.
Seafield
Warnford Invs.

■ THURSDAY
OCTOBER 20
COMPANY MEETINGS:
Conrad Ritblat Sinclair Goldsmith, SAS Portman Hotel, 22, Portman Square, W., 11.00
Elbief, Prince of Wales Lane, Warstock, Birmingham, 11.00
Usher (Frank), Waverley House, 7-12, Noel Street, W., 11.30

BOARD MEETINGS:
Finals:
Albert Fisher
Amstrad
Cradley Grp.
Ecu Tst.
Gleeson
Govett Strategic Inv. Tst.
Kleinwort Second Endowment Policy
Superscape VR
Interims:
Airflow Streamlines
Anagen
Chesterfield Properties
Davenport Knitwear
Ferguson Int.
Ferrum Hldgs.
Hoare Govett Smaller Co's Index Inv. Tst.
Lionheart
New Throgmorton Tst. (1983)
Yorklyde

■ FRIDAY
OCTOBER 21
COMPANY MEETINGS:
Armour Tst., 100, Liverpool Street, E.C., 11.00
Black (Peter), The Brewery, Chiswell Street, London E.C., 11.00
Wills Grp., New Change Buildings, New Change, E.C., 10.00

BOARD MEETINGS:
Finals:
Air London Int.
Interims:
AAF Inds.
Hunting

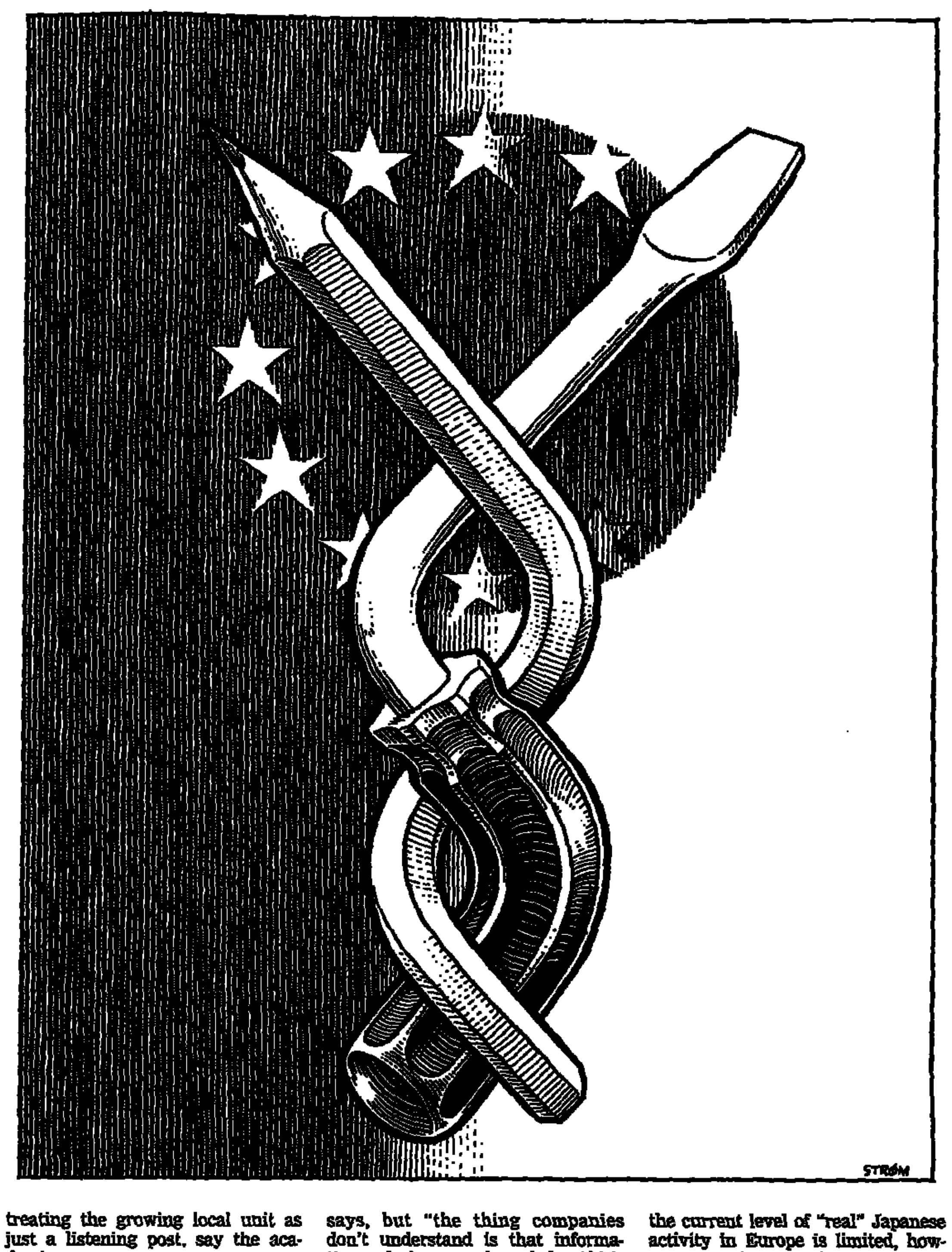
Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

CONFERENCES & EXHIBITIONS

The real face of Japanese R&D in Europe

Christopher Lorenz examines why so few companies are doing integrated product development



Guildford, a cathedral town in southern England, is an unlikely birthplace for an innovation which may revolutionise the world computer graphics industry. But Criterion Software, a 17-person company which was founded there last year, has launched a product which enables standard personal computers to produce three-dimensional graphics of a quality and speed hitherto feasible only on specialised and very expensive workstations.

The reaction of the US software and multimedia industry, and of computer games programmers worldwide, has been one of disbelief followed by great excitement. The product, called RenderWare, is being bought by a string of leading software development houses and hardware makers. Unless Criterion's growth is crippled by the established leaders of the graphics industry as they rush to clone its approach, the company's sales should climb rapidly from this year's £1.5m.

The Guildford company is also remarkable for a quite different reason. It is the second, fully-fledged new business to be spawned in just three years by the European research and development centre which Canon, the Japanese copier and camera maker, opened on Surrey University's research park there in 1988.

The first spin-off was Canon Audio, whose innovative, hemlet-shaped hi-fi loudspeakers are impressing the specialist music trade. Sales are expected to grow from £3m this year to £5m in 1995. Exports to the US have already started, with Japan next on the list.

Most other Japanese R&D establishments in Europe, with the notable exceptions of Sony's and Nissan's, are more limited than Canon's. They are of two very different kinds. One "upstream" group, also located in or near universities, monitors or actually conducts local research, mainly for transfer to Japan. The other, housed in or alongside Japanese factories in Europe, operates very much "downstream", merely adapting product designs from Japan for local manufacture and sale.

In theory, both kinds of operation are likely to expand gradually into the same central, or "midstream", territory as Canon: the design, development and engineering of products for global markets. This closely linked set of activities creates more added value than either research or manufacture do on their own. Yet it receives far less media attention: the headlines are hogged by investments such as NEC's £530m new semiconductor factory in Scotland – announced last month.

Many academics and government officials think the trend towards the midstream will occur automatically, as a series of pressures forces Japanese companies to do more design, development and engineering abroad. Apart from politics, pressures include the rising yen, the cost and supply of local engineers, the need to generate product designs direct from European markets, and a supposedly "natural" cycle of organisational evolution among multinationals of any origin.

Declarations of intent to join this trend have been made by Sharp and a few other Japanese companies which at present do only research or production in Europe. But the process is far less automatic than many people think. Organisational and other factors are hampering such an expansion of design, development and engineering away from the companies' home base.

One long-standing barrier is the near-universal tendency to keep really key R&D programmes close to head office. Masahisa Fujita, a professor at the University of Pennsylvania, says this applies especially in fast-moving technologies such as electronics – the very sector which accounts for most Japanese manufacturing companies in Europe.

Extra brakes on more Japanese heading for Europe include three options which did not exist for the Americans: first, locating in south-east Asia, or indeed the US; Japanese spending on R,D&D is already far greater in the US than in Europe, and growing faster. Second, doing more foreign design and development through alliances, rather than in-house. Third, subcontracting more work to the growing plethora of development consultancies in Europe and the US.

The last two options – part of a gathering surge of so-called "virtual R&D" around the world – will still benefit Europe in various ways. But the commitment is less far reaching than when a Japanese company invests in its own European design and development facilities.

The contrast between Canon's approach and that of most other Japanese companies was underlined this summer at the ninth annual conference of the UK-Japan High Technology Industry Forum, held at Gleneagies in Scotland. Of four presentations in a session titled "Japanese R&D in the UK", Canon's was the only one to deal with the complete process of innovation, including commercialisation.

The other three companies at Gleneagles were Toshiba and Hitachi, both of which have basic research centres in Cambridge working on quantum physics with the university's Cavendish laboratory, and Eisai, a drugs company which is spending £50m on a neurosciences lab at University College London. "Once we prove a project to be worth exploiting, it will be continued in Japan," the conference was told by Yutaka Tsuchiya, the lab's administration director.

By coincidence, the one-in-four ratio at Gleneagles reflects – slightly generously – the proportion of Japanese "R&D" units in the UK which do more than either just basic research or local modification of products. In continental Europe, the proportion is less favourable still.

According to the latest official government figures from Tokyo, Japanese companies claim to have no fewer than 264 "R&D facilities" in Europe. The UK has the largest number, 83, followed by Germany with 53.

Kiyonori Sakakibara, an expert on international R&D based at the London Business School, confirms that the UK figure – and, by implication, the German one – "is an over-estimate. It includes all sorts of preliminary technical activities".

A better indication of the amount of real Japanese R,D&D in Europe is the figure of 65 units which are classified as "independent", or not factory-based; 19 of them are based in the UK, 18 in Germany.

But even this classification is confusing. It mainly covers research units, including the three which presented at Gleneagles. But it also includes Nissan's European Technical (development) Centre north of London and NSK's ball-bearing facility near Nottingham, which are both linked to the companies' factories in the UK and elsewhere.

Some of the reasons for doubting whether research operations will move downstream into design and development as automatically or smoothly as theorists suggest are examined by Sakakibara and Eleanor Westney of MIT in a paper on the evolution of cross-border technology management by Japanese companies.*

One discouragement lies in the long success which many companies have had in collecting foreign technology for use in their laboratories back home. Even when top management makes a strategic commitment to push more real product development abroad, established relationships and patterns of communication lead the home country R&D organisation to continue treating the growing local unit as just a listening post, say the academics.

As a result, the unit finds it difficult to recruit and keep good local technical people. "This difficulty reinforces the belief of the home country organisation that the local [unit] can never match the product development capacity in Japan," say Sakakibara and Westney. A very strong commitment by top technical management is needed to overcome this problem, they argue.

That may not be enough. Arnoud de Meyer, a professor at Insead in France, identifies a similar impediment, involving managers and technical staff at all levels. Foreign R&D centres take an inordinate time to establish credibility with staff at their home country bases, he says. The French R&D unit of Corning, a large American multinational took from 1969 to 1981 to win its spurs; it only did so when one of its research projects became a big commercial success.

A further barrier cited by de Meyer is communication difficulties between foreign units and those at home. Electronic communication of various kinds is all very well, he says, but "the thing companies don't understand is that information only becomes knowledge if it's consensually validated – if you can actually see people in the same room say yes or no, and feel how they say it. You don't get that on an electronic network. Even teleconferencing impairs the informality and openness which people need to work together in complete trust."

This is less a problem for stand-alone research units working on projects separate from those in the home country than for product development units working in an integrated fashion with the home base – and sometimes with each other.

Although no Japanese company has yet had the time to develop as much research, design or development activity in Europe as US multinationals such as Ford or IBM, the Japanese are aware of these co-ordination problems.

As David Cairncross, a UK academic, points out in a new book on Japanese multinationals**, most long-established US multinationals still do most of their advanced design and development work at home. So it is not surprising that the current level of "real" Japanese activity in Europe is limited, however great its potential.

By the same token R&D spending abroad by Japanese companies is still outranked considerably by expenditure by foreign companies in Japan. The average size of foreign R&D units in Japan is also much larger, Cairncross reports: many have over 100 staff, whereas Japanese facilities in Europe and the US employ between 10 and 50, except in the motor industry.

Time may change this balance, but only gradually. That makes Canon's two spin-offs all the more striking. The true test of Canon's internationalisation, as for other Japanese companies, will be if it manages over the next decade or so to grow at least one big worldwide business based on products designed and developed abroad. It has made a better start than most.

* *Technology and the Wealth of Nations. Edited by Nathan Rosenberg. Stanford University Press £13.25.*

** *Japanese Multinationals: Strategies and Management in the Global Kaisha. Edited by Nigel Campbell and Fred Burton. Routledge £40.*

PIONEERS AND PROPHETS

Mary Parker Follett

Even in academic circles the name of this Bostonian polymath (1868-1933) occasionally provokes the question "Mary *who?*".

Follett's posthumous fame, however, is growing and a new book due to be published in January* seems certain to bring her work to a wider audience.

Peppered between extracts of her writings on conflict, power, leadership and other issues moreover, are glowing testimonials from distinguished authorities such as Rosabeth Moss Kanter, Peter Drucker, and Henry Mintzberg.

"Follett's espousal of mutual problem solving foreshadows employee involvement, participative management, quality circles and other team-based approaches to involving the workforce in diagnosis, analysis and solution finding," says Moss Kanter.

Drucker enthuses: "Every one of her comments is fresh, pertinent and insightful, but her true importance lies in her vision. She saw the society of organisations and she saw management as its generic function and specific organ well before either really existed. . .She was the prophet of management."

A political scientist who never worked in business, Follett applied her original ideas in the field of social work. She was profoundly interested in the individual in groups and in society, developing a brand of democractic governance based on participation and responsibility.

The seeds of late 20th century empowerment, cross functional thinking and leadership styles are firmly planted in her writings.

On conflict she argued that differences of opinion and different interests should not be pushed under the carpet; problems ought to be resolved jointly through searching for an "integrated" solution while imposed settlements, however benevolent, were ultimately doomed to failure.

Follett was eagerly listened to by senior managers in the 1920s, She developed her ideas in a series of lectures in New York in 1925 and just before her death at the inauguration of the London School of Economics' Department of Business Administration.

Her advocacy of conflict as a constructive and creative means of problem solving and her criticisms of hierarchical structures were out of tune with thinking after the second world war, and her ideas fell into neglect in the west. Drucker rejects sexism as an explanation, Moss Kanter is not so sure.

The Japanese, however, were not so blinkered and incorporated much of Follett's teaching into their management culture in the late 1950s.

Much of the credit for unearthing the Follett story deserves to go to Pauline Graham, editor of the forthcoming book. Graham, now a freelance lecturer and consultant in North London, discovered her "mentor" in the mid 1960s.

* *Mary Parker Follett – Prophet of Management. Harvard Business School Press. Probable price $29.95 hardcover.*

Tim Dickson

Robomom to keep the kids in check

MICHAEL THOMPSON-NOEL

Stirring news from Singapore: inventor Steven Chan has launched a £55 gadget, called Robomom, to help families control the amount of time their children watch TV. Robomom is a tamper-proof "electronic telesitter" that automatically turns your set off after a certain time – a "form of electronic agreement between parent and child" that is said to be more sophisticated than existing gadgets.

Robomom uses a system of "time credits" that start to be deducted once the set is turned on. After a sales push in Singapore, the inventor and his company, Informatics Engineering, hope to export Robomom to Japan and America, then elsewhere.

What a useful gadget. And what a huge market robots will become – trillions, I shouldn't wonder, by 2025. Wilfred Thesiger, the famed explorer, curses the arrival of machines, even cars and telephones. But Thesiger is old and disillusioned, whereas some, like me, have no fear of robots, even though, one day they will completely outstrip us. In the history of earthly intelligence, robots will be our heirs.

Before that happens, I want them to be my friends. I want a Robomom to control the amount of crap I watch on TV. I also want a robofriend to remonstrate with me every time I behave arrogantly or selfishly. I need lots of robofriends and will pay good money to get them.

The row over Unilever's Persil Power is still boiling busily, after all these weeks. Persil Power is the new-generation detergent that gave some of your washing a bit of a thrashing because it contains a substance (manganese catalyst accelerator) that cuts up rough in extreme conditions. Unilever relaunched Persil Power, and claims that the problem has been remedied.

Procter & Gamble, Unilever's arch enemy, has ripped into Unilever. And Unilever – prissily – has agreed that "somewhere between research and marketing, something went wrong". But I wonder if Unilever's marketing department and advertising agency are failing to spot a wonderful trick.

Years ago I was shown around Unilever's research laboratories at Port Sunlight, in the north of England. Everywhere I looked, washing machines and driers churned and whizzed. The researchers I was introduced to were preternaturally brainy. There were equations on black-boards.

It was very hush-hush. The stuff they were testing was doubtless a meek ancestor of Persil Power.

As a result of that visit, I came to appreciate the intense technological and marketing effort that underpins the dull-sounding, but in fact manically competitive, detergents market. Europe: £6bn a year.

But I have a small problem. My clothes last too long. I create no friction, so they never wear out. Some of them are older than Michael Portillo. I want them to shred and rot, so I can buy some new ones. I need Persil Power in its original formulation, or even something zanier: Persil Splatt!! With vicious Persil Splatt!! I could become a new person.

Unilever should stop apologising and switch to the attack.

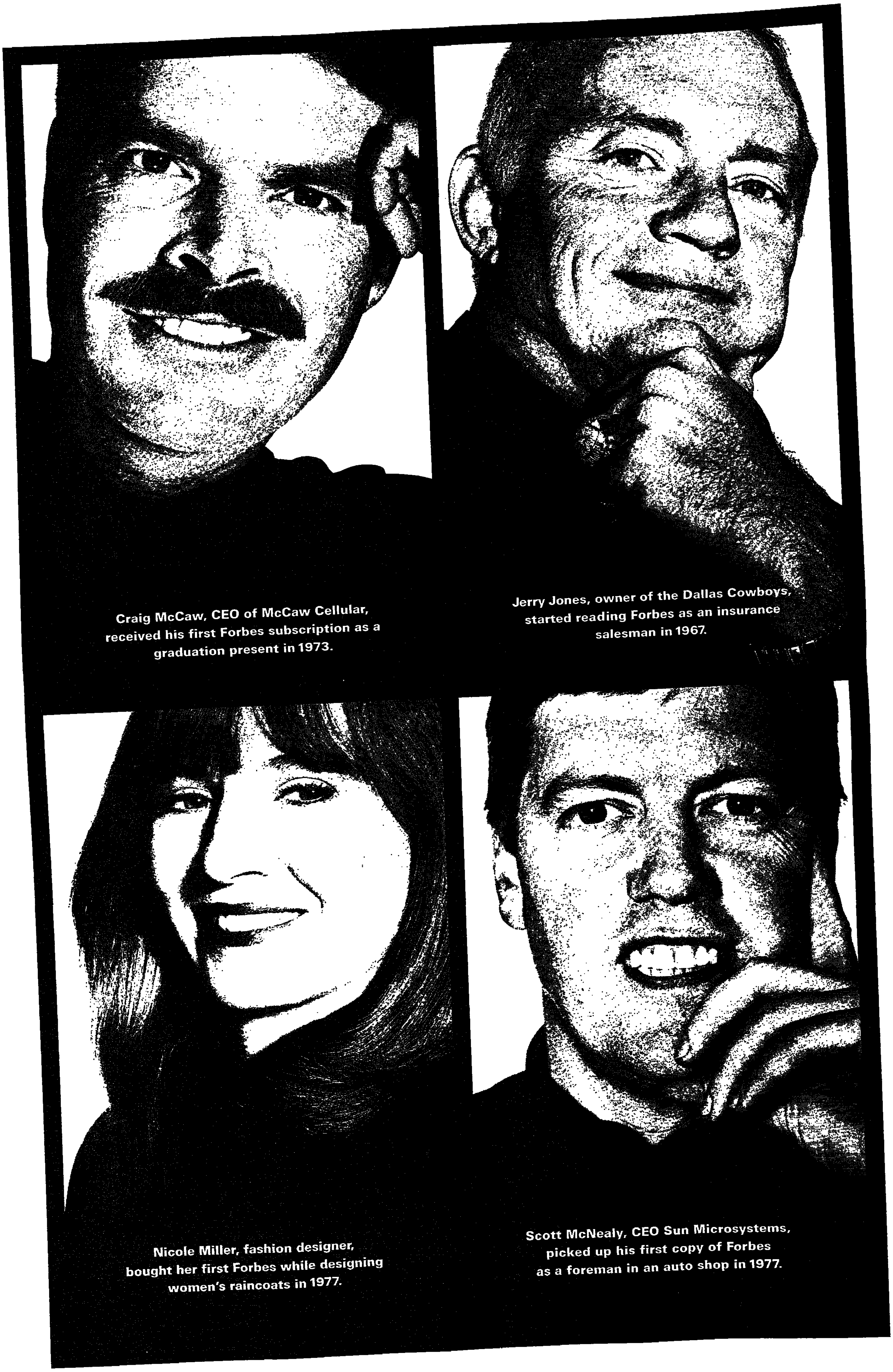
It is easy to tease newspapers about their smugness and sluggishness. Jon Katz, a US media critic, wrote recently in *Wired* magazine that newspapers were besieged. "Television has stolen much of their news, magazines their advertisers and best writers, cable many of their younger readers. And the digital revolution has pushed them still closer to the wall." Newspapers were "the biggest and saddest losers in the information revolution. . .our least hip medium, relentlessly one-way, non-interactive."

Katz is unimpressed by newspapers' efforts to join the media revolution. So far, he says, on-line newspapers do not work conceptually or commercially. With few exceptions they seem to be expensive hedges against on-rushing technology with little rationale of their own.

We have heard all this before. But Katz doesn't think that newspapers are doomed to early wipe-out, even though they need to re-attract an alienated public. If newspapers are to invest heavily in anything, he says, perhaps it ought to be in younger, more talented, more diverse staffs so that they can rediscover their vibrancy and relevance.

I agree. I believe that newspapers will still be around when man is on Mars. But they need their own revolution. My crystal ball shows enormous clouds of advertising expenditure forming and massing, like inter-stellar gas, and sweeping this way. But to claim their share, newspapers must spend mightily.

They will have to bid competitively against other media for the best writers, editors, investigative reporters, commentators and analysts, and for those rare souls who can inject pace, flair, quirkiness, eccentricity and fractiousness into newspapers' tired veins. This sort of thing is called old-product development. It can be just as exciting as Persil Splatt!!


Craig McCaw, CEO of McCaw Cellular,
received his first Forbes subscription as a
graduation present in 1973.
Jerry Jones, owner of the Dallas Cowboys,
started reading Forbes as an insurance
salesman in 1967.
Nicole Miller, fashion designer,
bought her first Forbes while designing
women's raincoats in 1977.
Scott McNealy, CEO Sun Microsystems,
picked up his first copy of Forbes
as a foreman in an auto shop in 1977.

Plenary meetings nearer on N Ireland

When people get serious about business, they start reading Forbes.

Sources: 1994 Simmons Proprietary Study 6/30/94 ABC.

Forbes circulation climbs to a record high of 779,125. Success isn't something you will into existence. It takes drive. Vision. And of course, the right tools. Which is why today's top business executives spend more time reading FORBES than any other business magazine. A well-known fact reconfirmed by a recent independent study. After all, FORBES provides its readers with a candid, inside look at the events and personalities shaping the business world. Information they can act on. Throughout their careers. As evidenced by record increases in both our circulation and newsstand sales, the number of people serious about business continues to grow. If you're serious about reaching this influential audience, make an executive decision. **Advertise in Forbes.**

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BUSINESS TRAVEL

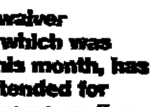
US visa waiver

The US visa waiver programme, which was due to end this month, has now been extended for another two years, writes Michael Skapinker.

The programme allows the nationals of most European Union countries to travel to the US without a visa, provided they stay for less than 90 days. Journalists and government officials continue to need a visa.

The legislation to extend the programme had been held up in Congress but has now been passed.

Brussels train service



Belgian railways expects to start a regular high-speed service from Brussels' Midi station to Waterloo, London, in the middle of next month, following last week's inauguration of Belgium's cross-Channel passenger train service.

The service can provide up to 15 return journeys a day, although to start there is likely to be only one. Eurostar trains, carrying up to 794 passengers, leave from a new terminal at Midi station. Fuller details, including fares, between London, Paris and Brussels are expected to be published today.

Danish road/rail link

Denmark's Prince Joachim became the first person to walk under the Great Belt strait at the weekend, through a railway tunnel that is Denmark's largest engineering project. The five-mile tunnel is part of a rail and road link across the strait that separates Copenhagen on the main Baltic island of Zealand, from the Jutland peninsula.

The last part of the DKr21.6bn (£2.27bn) project, a road bridge which will connect Zealand to the island of Sprogo, is under construction. Trains are expected to cross the Great Belt in 1996, and road traffic the year after.

New flights to Beirut

A new British airline is due to start daily non-stop Airbus A320 flights from London's Heathrow to Beirut on October 28, with return fares starting at £349. In doing so, it is banking on continuing peace in formerly war-torn Lebanon.

The airline, British Mediterranean Airways, is backed by a British-Italian-Argentinian consortium.

"Three years of peace have seen stability return and Lebanon is once again set to attract large volumes of trade and tourism", an airline spokesman said.

Flight interference

A computer scientist who tried to open an aircraft's door at high altitude has been charged with trying to interfere with an airline flight.

The 34-year-old Canadian citizen, was arrested when an American Airlines MD-11 made an unscheduled stop at Seattle-Tacoma airport on a flight from Dallas to Tokyo with 168 passengers and 19 crew members.

Witnesses said Low tried twice to open a rear exit door. The second time, when the aircraft was 30,000ft above Wyoming, air was heard hissing through the seal. No one was hurt.

Airline strike ends

Scandinavian Airlines System's check-in staff in Copenhagen have ended a three-day wildcat strike that grounded most of the carrier's European flights. The stoppage ended after an arbitration court agreed to discuss the strikers' demands and told them to resume work, officials said.

The airline, jointly owned by Sweden, Denmark and Norway, said its inter-continental and domestic flights were not affected by the action, nor were other airlines. About 800 employees stopped work last Wednesday, protesting at the carrier's refusal to re-instate a union official who had been fired.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	21	21	21	21	22
Hong Kong	30	28	26	24	24
London	[illegible]	[illegible]	16	14	14
Frankfurt	10	11	15	15	14
New York	17	19	21	18	17
L. Angeles	23	25	24	23	25
Milan	18	16	17	16	17
Paris	11	12	17	15	15
Zurich	9	10	16	15	13

Maximum temperatures in Celsius

Information supplied by Meteo Consult of the Netherlands

The recession in Europe may be over, but airline passengers and hotel customers are still being cautious with their money

Dream of luxury loses its appeal

Airline executives are the first to admit that travelling business class on short European flights these days is an expensive way to drink champagne.

This unexpected candour from an industry which relies on selling dreams of luxury travel that rarely live up to reality is no sudden accident. In recent months, airlines have become increasingly worried by the continuing migration of their most profitable business customers to the economy cabins on their European services.

During the past four recession-hit years, many business travellers were forced by rigid company budgets to abandon first- or business-class air travel. But with signs of economic recovery, many airlines were hoping to see business travellers flock back to business class.

Although first- and business-class traffic has picked up, especially on long-distance, intercontinental flights, there has been no great rush to return to the business cabin in Europe. The reason is simple: businessmen still find it hard to justify the heavy club-class premium on short flights.

A survey by the Gemini Consulting group of 50 leaders in the European aviation industry shows airlines acutely aware of the challenge facing them. What they have to do, the airlines now realise, is rekindle passenger enthusiasm for air travel through product development and innovation.

Kieron Brennan, the Gemini vice-president who conducted the survey, says that all the airline executives interviewed agree that the European industry now has to adapt to a much more consumer-driven market.

"We've always said we were customer-focused, but over the next couple of years we are really going to have to prove it," explains one respondent. Another says: "In the US the customer plays a key role in pushing for lower fares. In Europe there is no visible consumer movement yet, although we're beginning to see the signs on the most competitive routes."

Many feel that consumer demand rather than European air transport liberalisation will become the driving force for change. "Airlines are adapting to the same change in consumer attitudes that has taken place in the car industry," says Brennan. "A few years ago people were proud to pay a premium to buy a Mercedes. They are now proud to pay less for a Lexus."

Airlines, it is acknowledged, will only survive if they respond to the demands of air travellers. "We used to think that liberalisation would create the environment to change. Now we believe the customer will. The customer has less loyalty to flag-carriers than governments have," remarks one respondent.

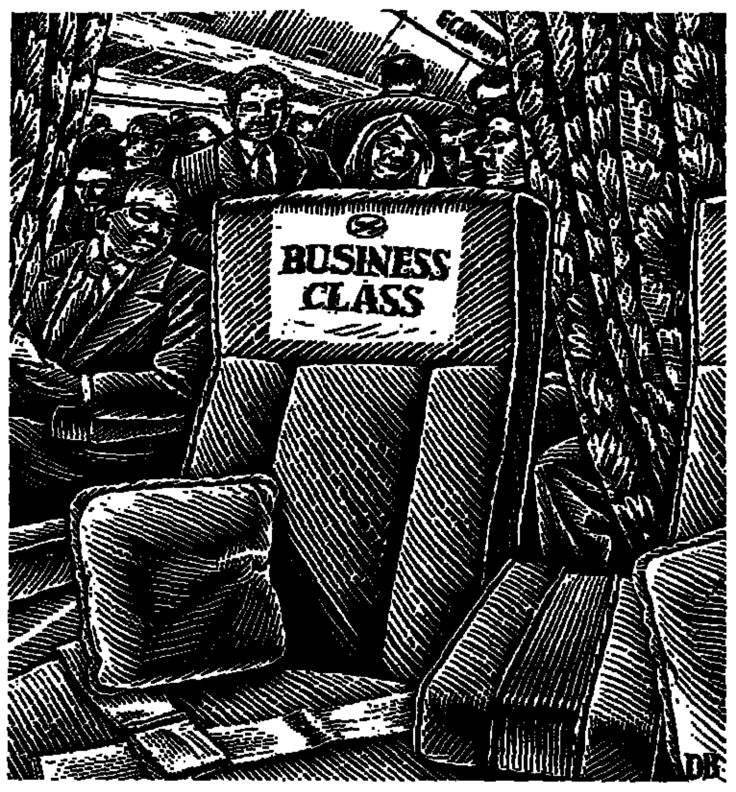
An airline executive adds: "The whole industry has been run for too long by aviation enthusiasts and civil servants. It's now time for a consumer-led, businesslike culture."

The survey shows that the majority of respondents expect only one in five passengers to travel business class by 2000.

Competition for business passengers on long-distance flights has already led to significant changes in inflight services and products. An increasing number of airlines have dropped their first-class cabins on transcontinental routes; instead they offer first-class service at business-class fare.

In Europe, however, airlines are still offering "an economy service at a business-class fare", as one airline executive puts it. Many travellers who fly business class on long-haul flights feel cheated by European business-class standards and prices after being treated like kings on transatlantic flights, Brennan says.

In future, European business-class passengers will have to be offered a wider menu of value-added services (for example, baggage collection and delivery, improved lounges, better seating, chauffeur services). Airlines will also have to speed up their rate of product innovation and continually upgrade and improve business-class services.



"It simply won't be sufficient to launch with great fanfare a complete revamp of business class and then do nothing more for five years," says Brennan. British Airways, for example, has just announced a £70m relaunch of its Club Europe business-class services. And high time. The original Club Europe brand was launched in 1988.

Many airlines already offer some of these new and enhanced services. But the survey suggests that the airlines' offerings are – at best – patchy and fragmented. Such services are integrated only weakly with the airlines' sales and distribution channels, says the report, so that only the most assiduous customers can find out about them.

As one executive traveller says: "I look forward to the day I am treated as well as a UPS or DHL parcel."

Paul Betts

Rooms with a budget price

European business travellers who hope their employers will allow them to return to luxury hotels now the recession is over should prepare themselves for some depressing news. All over Europe, hotel companies are convinced they are about to see a rapid increase in demand for the sort of budget hotel that has a Happy Eater restaurant attached to it.

Forte, which owns the Happy Eater chain, is rapidly expanding its budget hotel business. It is building 22 new Travelodge hotels in the UK this year, bringing the total to 114. In 1990, Forte had only 50 Travelodge hotels in the UK. A room in a Travelodge costs £33.50 a night.

Forte is due to open two new Travelodges in Spain over the next three months. It already has two in Ireland and four in France.

Holiday Inn is working with franchisees and joint-venture partners to build 60 Holiday Inn Express hotels in Europe over five years. The hotels will be in Germany, Poland and the UK and will charge £39 a night, including continental breakfast.

France has the most advanced budget hotel industry in Europe, but Forte and Holiday Inn believe the rest of the continent is about to catch up. John Miller, sales and marketing director of Forte's roadside restaurants business, says about 15 per cent of hotel rooms in France are in the budget category. In the US, the figure is 25 per cent. In the UK, it is only 3 per cent.

France's budget hotels cover a wide range. At the Formule 1 chain, run by Accor, guests share bathrooms and pay FFr130 (£15.50) a night. Miller does not think UK travellers would put up with shared bathrooms. Mr Jean-Claude Luttmann, co-chairman of Formule 1, thinks he might be right.

Accor has opened three Formule 1 hotels in the UK, but they have not been a success. The company has done better in France, where it has nearly 300. Accor's 400 Ibis hotels, which have private bathrooms and charge FFr260 (£31) a night, are probably closer competitors to Travelodge and Holiday Inn Express.

Forte's Travelodge rooms are built in a factory and then assembled on site. They have en-suite bathrooms, but no telephones, although the company is considering installing them. Holiday Inn Express hotels will have telephones.

While the hotel chains are convinced demand for these products is rising, they concede that some business travellers will escape them and stay somewhere more expensive.

Miller believes junior staff who were not allowed to travel during the recession will now stay in Travelodges. Tim Clarke, managing director of Holiday Inn in Europe, says the Express hotels will be for travellers arriving late.

Michael Skapinker

MEDIA FUTURES

Whistleblowers blast the pirates

Alan Cane reports on a promising start for Software Crimeline

Evan Cox, European counsel for the Business Software Alliance, declared himself satisfied. The first two days of operation of "Software Crimeline" had produced more than two dozen telephone calls, and the work of sorting the genuine from the mistaken or malicious was already in progress – all this three weeks before the organisation starts to reward whistle-blowers in earnest.

BSA is an aggressive industry lobby comprising the world's principal personal computer software suppliers. Software Crimeline, announced last week, is the latest initiative in the escalation of its war against software pirates – companies or individuals who copy software rather than pay for the genuine article. The alliance reckons to have brought more than 500 legal actions against such organisations since 1989.

Piracy is thought to cost the industry more than £8.5bn a year in lost revenues, almost half of which is incurred in Europe. The figure for the UK is £328m. The UK Federation against Software Theft seized £25m worth of illegal software in the first half of 1994.

Nevertheless, Britain is one of only six countries where legal software sales exceed 50 per cent of the market. In Pakistan, Thailand and the United Arab Emirates, for example, pirated software represents 99 per cent of the market.

Software piracy is easily perpetrated and hard to detect. Copying software on to blank computer discs is simple. Soaring sales figures for glossy manuals covering the operation of popular pieces of software are one indication of how easily it can be accomplished.

Through Software Crimeline, individuals are being encouraged to ring a hotline number – 0800 510510 – to report the use of pirated software. The carrot, in this case, is the promise of a reward of up to £2,500 in the case of a successful prosecution. The scheme has already been tried successfully elsewhere. In Australia there were 150 calls in the first week alone. In the US, a hotline has proved successful although no reward is offered.

What sort of motive do people have for shopping their employers or colleagues? Cox accepts that a number of calls are malicious – made, perhaps, by disgruntled ex-employees out to settle scores.

But most calls, he believes, come from people who feel their honesty is being compromised by being asked to work with illegally-copied software. This can happen when a company under-estimates its software budget and copies existing software.

Cox leaves no doubt that the BSA is losing patience with companies where senior executives plead ignorance of the law, and is ready to press for harsher action. Under Britain's software protection laws, penalties include up to two years' prison for executives of offending companies.

He says: "We have a feeling that the process of education has been going on long enough. We were prepared to give people the benefit of the doubt at first, but now we are tired of the old excuses – 'We didn't know', 'We didn't understand' – and so on".

Cox makes the point that there have been changes in software industry practice which make piracy increasingly indefensible. High software prices used to be blamed, but costs have fallen, sharply in many cases. Equally, there were complaints about restrictive licensing practices from large companies with a requirement for many copies of a particular program (software is often licensed rather than bought outright). Easier licensing arrangements had been agreed, he said.

A survey of computer abuse carried out by the UK Audit Commission makes clear the kind of trouble software piracy can cause companies. It notes that one organisation had to pay £30,000 for new licences while another incurred costs of £100,000 after a programmer was caught with 60 discs filled with illegal programs.

While nobody quarrels with BSA's aims, there are some qualms about its latest methods. Among the dangers is the possibility that a malicious or greedy employee could install illegal software on his employer's system – then tip off the BSA.

Typically, once the BSA believes it has enough evidence against a company, it obtains an "Anton Pillar" order from the courts, which enable it to search premises and seize suspect computers and discs.

The telephone hotline is just one of the ways the organisation has for gathering information about illegal software use. But Cox has no intention of surrendering the element of surprise: "There are some things," he says, "that I am not prepared to talk about."

When you wish upon a keyboard

Alice Rawsthorn on a high-tech film challenge to Disney

Wired, the super-hip technology magazine, regularly carries a recruitment advertisement from Walt Disney, the entertainment group, bearing the slogan: "If you're good with a mouse, we've got great people, cool hardware and big challenges in advanced computer graphics".

It seems very likely that future issues of *Wired* could carry a similar advertisement from Disney's latest competitor – the new entertainment group being launched by Jeffrey Katzenberg, who recently resigned as head of Disney's movie studios, Steven Spielberg, the Oscar-winning film director, and David Geffen, the billionaire music mogul.

The new group, like Disney itself, will be anxious to attract the cream of the new breed of technology buffs if it is to achieve its ambition of becoming a force in feature films and animation.

The impact of new technology on the entertainment industry not only played a pivotal part in persuading the three partners to set up a new studio, but will be critical in determining its development.

Steven Spielberg has made no secret of the fact that he sees the new company as a vehicle for his experiments with movie-making technology. The extraordinarily realistic dinosaurs in *Jurassic Park*, his $356m blockbuster, were digital creations from the computers of Industrial Light and Magic (ILM), the special effects laboratory set up in San Francisco by George Lucas, director of *Star Wars*.

Digital technology enables film-makers to shoot scenes which would otherwise be too expensive – or logistically impossible – to film.

Jurassic Park proved how appealing such techo-trickery could be. Digital effects also feature in some of this year's box-office bits, including *Forrest Gump*, which creates the illusion of Tom Hanks participating in famous historical events, and *True Lies*, the Arnold Schwarzenegger action film whose director, James Cameron, has teamed up with IBM to create his own Digital Domain special effects lab in Los Angeles.

Spielberg is intent on further developing the creative potential of digital effects at the new studio. Similarly, technology is an essential element of Jeffrey Katzenberg's plans to create a new animation company.

Animation is one of the most lucrative areas of movie-making (largely because of the high sales potential for videos and other merchandise).

But the expense of recruiting large teams of skilled artisans has traditionally deterred newcomers from challenging Disney's dominance of the animation field.

The quality of animated films has been transformed by the computer-generated techniques that Jeffrey Katzenberg encouraged his animators to use at Disney, as illustrated by the success of *The Lion King*, one of the most elaborate animated films ever, which took $267m in four months at the US box office.

These new techniques have also reduced the need for skilled craftsmen, thereby paving the way for the new company (as well as Warner, one of the major studios) to move into animation.

Finally, the technological revolution in movie-making has drawn new investors into the entertainment industry from related fields that include electronics, information technology and telecommunications. As a result, there should be no shortage of industrial partners for the new studio to tap for investment.

Hollywood rumour-mongers have already started to round up likely suspects. Microsoft, the software giant, is at the top of the list.

Dixons to open specialist stores

By Neil Buckley

Dixons, the UK's largest electrical retailer, is launching a new store called The Link, claimed to be the first specialist retailer of a range of communications, entertainment and information networks and services.

Although it will also sell equipment, The Link's main focus will be helping customers select and sign-up to services such as mobile telephone networks, satellite and cable television networks and on-line computer services – the first time all these services have been marketed under one roof.

Dixons says that being a retailer of the latest technology means more than selling hardware such as video recorders or computers. It also means combining access to a network with a piece of equipment. This calls for a different store environment, with information and demonstrations provided by specialist staff.

"These products and services will be one of the fastest-growing consumer markets of the next few years", says John Clare, Dixons' chief executive.

Sarah Carpenter, special projects director at Dixons, says The Link is unlike any retail format she has encountered in Europe or the US. It could help Dixons become a leading marketeer of interactive communications services as these develop. The group is opening four Link stores in the London area, starting with Kingston on October 31, then Enfield, Chiswick and Lewisham. Four more open next February and the group will decide next May whether to extend the chain.

Although it acquired the Currys and PC World chains, and Silo in the US – later sold – this is the first time Dixons has launched a new concept. Ideas for The Link developed out of plans for a mobile telephone shop.

Stores will have large central desks, giving customers space to fill in applications for services, assisted by staff. The walls will carry information boards and hardware that can be tried out. A mobile communications area will offer details of consumer equipment, networks and tariffs – including Mercury One2One, Orange, Cellnet and Vodafone.

The pager area will offer both conventional pagers and services, and new "calling-party pays" pagers, such as Mercury MiniCall and Swatch's new wristwatch pager, The Beep. A section devoted to satellite television will include five bays where customers can view different channels. Dixons hopes later to include cable TV operators.

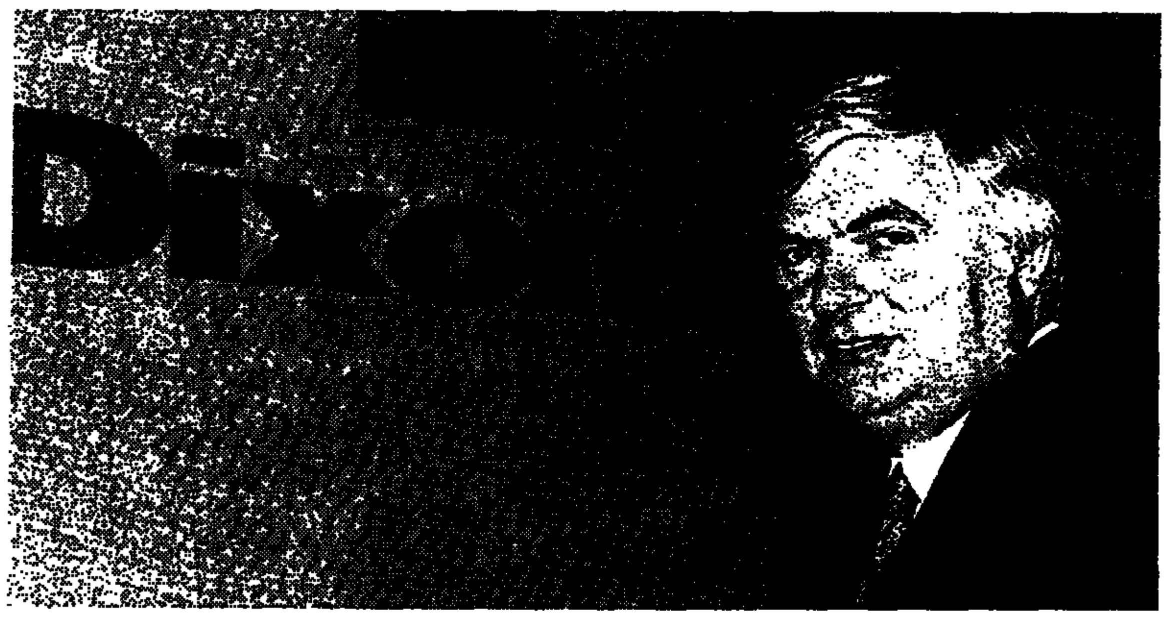
A telephone area will sell a wide range of faxes, and will also market BT network services, such as call waiting, call diversion, and caller number display – the first time BT has sold such services through a third party.

A final section will be devoted to on-line computer services, including Delphi and CompuServe – both offering exclusive services such as computer shopping, plus a gateway to Internet, the global computer network – and Tel-me, a network aimed at business users.

Dixons has not always enjoyed the best reputation for customer service, but says The Link's staff have been specially selected and given a three-week course including instruction by service providers.

Stores will earn a normal retail margin on hardware, and agency fees or commission on sales of services.

Sarah Carpenter says that Dixons was selling some services in its other stores, but that these were not equipped to capitalise on the opportunity. Many consumers signed-up for services in specialist outlets, some run by service-providers themselves, or answered ads in newspapers or magazines.



Lydia van der Meer

John Clare: "These products and services will be one of the fastest-growing consumer markets of the next few years."

DEC tests over the Internet

By Motoko Rich

No intelligent consumer would buy a car without first taking it for a test-drive. So what about computer products? Car buyers go to a showroom when they want to try a new model, but buyers of computer systems can now evaluate hardware or software without ever leaving their desks.

Digital Equipment Corporation, the US computer maker, is allowing users of the Internet, the self-regulating global computer network, to test the company's Alpha computers by using their own software programs on its hardware. Without having to go near the machines, users, via the Internet, can tap into one of four Alpha computers located in the US.

By activating a standard Internet file transfer protocol, they can then transfer their software to a DEC machine and effectively use the hardware from any range.

So far, more than 7,500 users internationally have logged-on to try out DEC machines and test its product claims of speed and efficiency.

James Bishop, faculty fellow in the department of physics at the University of Notre Dame, Indiana, says that when hardware had to be shipped to customers for testing, time was wasted.

The scheme also reduces DEC's marketing costs. "We only have to manage a handful of machines connected to the Internet, rather than running many systems in the marketplace, or loaning out a large inventory," says Russ Jones, DEC's marketing manager. Some users log on to the Alpha system in order to test their own programs. Software developers, for example, use DEC machinery to evaluate new codes before attempting to market them, while software users use Alpha equipment to check for bugs in their own systems.

"We have been encountering problems in running certain software on our systems," says Ignacio Lizardo, an engineer at United Technologies Corporation's chemical systems division in San Jose, California. "By transferring our program codes to the DEC systems we can determine if it is a problem with our system or see if we need to make hardware upgrades."

DEC believes the Internet allows for more rigorous testing of its products. "The fact that it is in the public domain on the Internet allows people to satisfy themselves that it is a robust system when they combine the hardware with their own software," says Olivier DeWandre, programme manager for education and research at DEC Europe.

Software buyers can also test packages before they hand over their cash. Unipalm, the UK's largest provider of Internet connections, allows network users to run several programs via the Internet before deciding to purchase.

Users who want an evaluation copy of a software program are given a "key" – not unlike an ATM pin number – that allows them to download programs on to their systems. The programs are "time-bombed" so that they work only for a limited period. "If you like the program you get in touch with us and we will sell you a permanent key," says a Unipalm spokesman.

ARCHITECTURE

100 years of London pride

Colin Amery on centenary celebrations for the city's survey

Sometimes public money is spent wisely. One hundred years ago a remarkable project was started that has become famous as the Survey of London. Its centenary is being marked by a display at the Museum of London in the Barbican (until November 27), and a slim volume has been produced by the survey's general editor, Hermione Hobhouse, as a permanent reminder of the importance of a rare and continuing work of scholarship.

The idea of carefully recording the buildings of a whole capital city in measured words and drawings could have been pedestrian and boring. But for anyone interested in architecture, the existence of the survey is as reassuring as the presence of Saint Bartholomew's Hospital is to the City of London.

It is good to know that quiet and serious expertise is being supported from the public purse in the interests of learning, knowledge and excellence. However, unlike Barts' marvellous hospital and medical school, the survey is not in danger of being targetted by official vandals.

Indeed, the survival of this small group of dedicated scholars, historians and measurers in post-Thatcherite Britain is something of a small miracle. The survey started as a result of pressure from a group led by the great arts and crafts architect C R Ashbee in the 1890s, and thrived initially with the support of the London County Council.

That support was continued by the Greater London Council until its abolition in 1986. The GLC had nurtured a specific to look after the historic architecture of London. Its historic buildings division was a pioneer in the care of listed buildings, and became an exemplar to English local authorities.

When politics intervened in the 1980s, the division was taken over by a quango, English Heritage. Thankfully, someone somewhere was wise enough to see that the scholarly survey belonged elsewhere, so it was given a home in a non-departmental public body, the Royal Commission on the Historical Monuments of England.

This was inspired, because the founders of the royal commission had an intellectual sympathy with the founders of the London survey. There are portraits in the exhibition at the Museum of London of Victorian and Edwardian statesmen like Sir John Lubbock, author of the first Ancient Monuments Act of 1882.

During much of the 19th century, government action to preserve or care for historic buildings had been ineffectual. It took great energy and political manoeuvring by groups and individuals to change all this. As a result, the end of the 19th century saw the formation of the National Trust, the Society for the Protection of Ancient Buildings (created by William Morris and his friends), the London Society and the London Topographical Society.

We have become used to the system that evolved at that time, but it took a series of campaigns to alert politicians to the need to preserve the past. It was the architect C R Ashbee who had the idea of creating local watch committees to draw attention to the historic fabric of the parishes of London, and to spotlight areas or specific buildings under threat.

In the words of Ashbee: "We plead that the object of the work we have before us is to make nobler and more humanly enjoyable the life of a great city whose existing record we seek to mark down; to preserve of it for her children and those yet to come whatever is best in her past or fairest in her present...and to stimulate among her citizens that historic and social conscience which to all great communities is their most sacred possession."

The work of the London survey represents in elegant and disciplined form an expression of those ideas. The display at the Museum of London shows many of the glories of London, which are also manifest in the great volumes that have appeared during the last 100 years and which continue to be produced by a dedicated team.

There is a chance to hear much more about the work of the London survey in a series of lectures on Mondays (until November 17) at the Linnean Society, Burlington House, Piccadilly, London. Further information can be had from the Survey of London, Newlands House, 37-40, Berners Street, London, W1, 071-631 5065.

London Survey'd: the work of the Survey of London, 1894-1994, is published by The Royal Commission on the Historical Monuments of England, at £7.95.

PEOPLE

The commuter who will regulate the railway

Competition lawyer **John Swift** tells **Charles Batchelor** that he is intrigued by the chance to change sides and start setting the rules

Trevor Humphries

John Swift's daily train ride from Didcot Parkway, Oxfordshire, to Paddington, London, takes just over 40 minutes, a journey time that has stayed the same for 10 years, despite the investment that has gone into Britain's railway.

Swift's journey to work may not have changed, but almost all other aspects of the system are in flux. As the recently-appointed regulator of an industry which is being made ready for privatisation, this QC and competition lawyer will play a starring role in shaping the railway of the future.

Swift, who has an engagingly dry sense of humour, is not the only new player in the rail game. Robert Horton, combative head of Railtrack, which owns the rail infrastructure, and Roger Salmon, the more reflective merchant banker-turned-franchising-director, will also help forge the new network. But they and others will require Swift's approval for any deals they put together.

At present, Swift and his team are attempting to impose order on the mass of agreements which are being drawn up between the 50 or so organisations that have replaced the monolith that was British Rail.

It is Swift's job to act as arbiter between the parties – to ensure fair play, for example, between Railtrack, say, with its monopoly of the 10,000-mile network, and a company such as Gatwick Express, which is hoping to win a franchise over a mere 27 miles of track.

Swift has already given notice of his intention to intervene vigorously. The consultation process he initiated last July suggested that Railtrack would have its work cut out justifying the returns the Treasury expects it to make on its assets.

Swift chooses words carefully, but his intentions are clear. He says: "If I were to form the view that Railtrack's charges were such as to give it a disproportionate return against the risks it is running, or its costs, then you come close to an abuse of a dominant position in European law."

Although Railtrack will have a dominant position by virtue of its size and sole ownership of the track, Swift says he is not there to pillory a particular company but to strike a balance.

"The train operators must be treated fairly if the consumer is to get a fair deal, but I am not here just to defend the little guy. Railtrack must have confidence that it can come to us and justify a charge without feeling that we are in one camp."

He wants to be a positive force in the industry rather than a threat to its stability. "Very formidable powers have been conferred on me by parliament, but I do not want to create regulatory uncertainty," – thereby creating additional risk for investors.

Nor can he take such a purist view that he imposes impossible obligations on the franchising director. "I cannot burden the franchising director with a set of agreements he cannot sell in the market place."

Swift is there not only to hold the ring between the commercial players; he must also take into account the government's role. The wording of his consultation document showed clearly that in some areas he was questioning the government's calculations in preparing the railways for privatisation.

For example, he queried both the rate of return of 5.6 per cent, rising to 8 per cent over four years, which the Treasury has insisted on for Railtrack, and also the £6.5bn valuation put on its assets.

Both might need to be much lower, he suggests.

"I have to approach this in the most fundamental manner. If it appears that the asset value is questionable or that the rate of return requires revision, this is an entirely appropriate matter for the regulator to consider.

"Anything else would be to rubber-stamp the proposals of the dominant shareholder [the government]."

Much of his time in the past few months has been spent putting together a team – at present about 50-strong – to deal with the mass of detail involved in establishing a new rail structure.

He is now 54, and was headhunted to lead the Office of Rail Regulator after 25 years at the Bar. He spent much of the 1980s representing large corporations, including IBM, in UK and European investigations into competition issues. He was also an adviser in some of the big takeover battles of the period, including the bid by GEC and Siemens for Plessey, and of Guinness for Distillers.

Having defended many clients against charges of anti-competitive behaviour, Swift was intrigued by the chance to change sides and start setting the rules. He became special adviser to the government on rail privatisation before taking on the post of regulator last April.

There was little in Swift's background to suggest a legal career. The family company of Thomas Swift & Co was a firm of Liverpool stevedores founded in the 1860s. Swift seemed set to continue in the family tradition, but won an open exhibition to University College, Oxford, where he read classics and philosophy before switching to law.

While he was away at university, the family firm was sold and Swift went on to pursue postgraduate international studies at the Johns Hopkins University in Bologna, Italy. After lecturing in law at his old college, he qualified as a barrister and entered commercial practice.

Like many outsiders who have become involved in the industry, Swift is an enthusiast for rail's potential and foresees a "virtuous circle of better and more frequent services" attracting more passengers. More personally, an efficient railway allows him to live in rural Oxfordshire where he can pursue his enthusiasm for gardening and exotic shrubs while commuting daily to central London.

Swift is acutely aware of the challenges his group faces. "We are going to be an extremely high-profile organisation in contentious areas of politics and industry."

One of the arcane skills he learned while training to be a stevedore was how to splice wire rope. Tying together the disparate strands of the railway industry will be no less demanding.

NAMES IN THE NEWS

Araskog leaves ITT succession still open

Travis Engen may have emerged as the front-runner to take over the top job at ITT, the giant US manufacturing, financial serivices and hotels conglomerate, but the race is still far from over, writes Richard Waters.

The 50-year old Engen, who has been on the fast track since joining ITT as head of one of its defence electronics businesses nine years ago, was last week given operating responsibility for ITT's insurance and communications businesses. On top of his previous responsibilities, this leaves him in charge of businesses which generate $17.4bn of the group's $22.8bn in sales.

Engen takes over his new responsibities from Dale Comey, 52, himself considered a potential successor to ITT boss Rand Araskog, until he unexpectedly announced his retirement last month.

A lot could still happen before Araskog reaches the company's compulsory retirement age of 65 in October 1996, though. It was notable, according to one ITT insider, that Araskog did not take the opportunity last week to anoint Engen clearly as his heir apparent by naming him president and chief operating officer.

That could still leave the door to the chairman's office ajar for Robert Bowman, 39, the chief financial officer. Though considered a long shot for the job, Bowman has wowed Wall Street in his two years with the company and has been talked about as a future ITT boss.

Meanwhile, there seems little chance of Araskog going before his two years are up. "We'll have to drag him out of here screaming as it is," says the insider.

EvA: audacious optimism

Eugene van As, the man who engineered South African paper producer Sappi's $1.6bn takeover of US company S.D. Warren last week, has long had a reputation as one of South Africa's most aggressive and audacious businessmen, writes Mark Suzman.

An Afrikaner by birth, van As speaks fluent English and German and has been Sappi's chief executive since 1978, becoming executive chairman in 1991. During that period, through a number of large-scale, high-risk deals, he has transformed Sappi from being a mid-size South African company to one of the world's largest paper producers.

Known within the company by his initials EVA, van As is widely admired as a tough, no-nonsense manager with a fine grasp of the details of the paper business and an ambitious, but impressive vision of Sappi's future as a global paper company.

Nevertheless, there is also suspicion, particularly among shareholders, that he has a tendency to put his empire-building ambitions ahead of their interest. Over the past decade he has consistently made new deals just when more conservative people might be consolidating existing operations.

His first big gamble was the construction of a R1.6bn Kraft paper mill in the eastern Transvaal in the early 1980s. Then, in 1988, Sappi picked up Courtaulds' huge southern African pulp interests when the UK company disinvested. In 1990, van As began Sappi's international expansion programme with the purchase of five UK paper mills, and in 1992 bought German-based Hannovier Papier.

Despite van As's irrepressible optimism, however, nearly all the deals, and particularly the Hannovier takeover which seriously dented earnings over the past two years, have proved very difficult for Sappi to digest. As a result, the company has at various times been forced to take drastic action, such as suspending its dividend, before returning to an even keel.

Now, just as Hannovier appears to have turned the corner, van As has taken his biggest gamble yet, with the highly leveraged Warren deal. Once again, he is confident he has guessed right on the cycle and paid a reasonable price; once again shareholders are nervous of the consequences.

But as one analyst notes succinctly: "Whatever else you may think of him, the guy certainly has got balls."

Musical chairs at Westpac

Last week's changes at Westpac, the Australian bank, have increased options for succession to the managing director's chair, which will be occupied by expatriate American Robert Joss until early 1998, writes Bruce Jacques.

Joss, who earned his reputation reorganising US bank Wells Fargo, has reassigned the jobs of the internal contenders and brought in former Citibank Australia chairman, Michael Cannon-Brookes.

Cannon-Brookes, currently managing director of law firm Freehill Hollingdale and Page, has been appointed Westpac's group executive, operations. The new position confers stewardship of the bank's burgeoning support operations and reports directly to Joss.

But the bank's internal changes, styled by Joss as a new focus on performance and growth following an era of internal repair, may hold more clues to the succession.

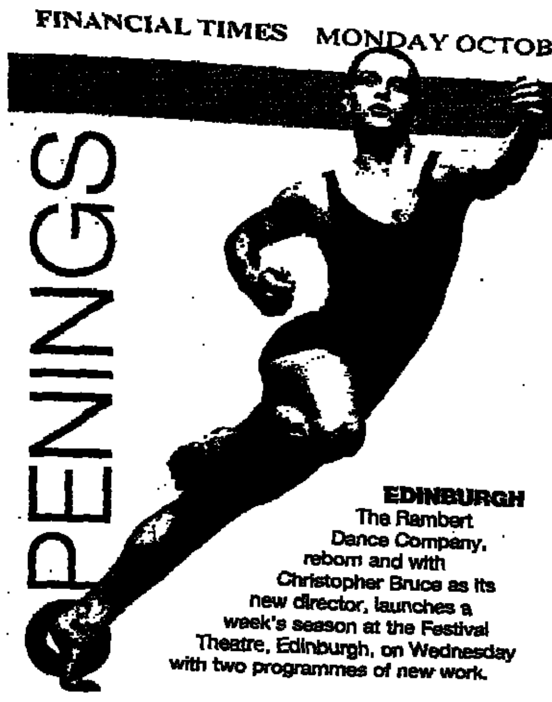
They include moving the high profile former Treasury bureaucrat, David Morgan, from retail banking to head a new institutional and international banking division. Morgan's position at retail, which controls the bulk of the bank's assets, has been taken by former institutional banking head, Owen van der Wall.

Biggest promotion in the shuffle has gone to Barry Robertson who is overseeing the bank's extensive problem asset sale programme as chief of property finance and asset management. He adds the commercial banking division to his duties.

Speculation on the changes has centred around Morgan who was touted for the top post before Joss was appointed last year. Morgan's new assignment has perhaps unfairly been interpreted as a classic sideways move.

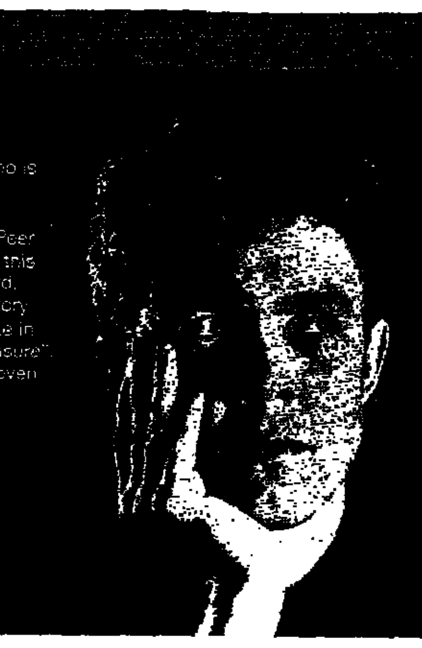
But it would scarcely be out of character for Joss to play management musical chairs at least once more.

OPENINGS



EDINBURGH
The Rambert Dance Company, reborn and with Christopher Bruce as its new director, launches a week's season at the Festival Theatre, Edinburgh, on Wednesday with two programmes of new work.

STRATFORD-UPON-AVON
Alex Jennings, who is already the Royal Shakespeare Company's new Peer Gynt and Oberon this season in Stratford, adds to his repertory this week the Duke in "Measure for Measure". The director is Steven Pimlott.



VIENNA
Europe's biggest and most popular contemporary music festival, Wien Modern, opens on Sunday. Founded by Claudio Abbado in 1988, the festival has a special focus this year on American composers, led by Morton Feldman and George Crumb. Wien Modern dominates concert life in the Austrian capital for a month. A general pass costing £40 lets you in to more than 40 events, including concerts by Abbado and other leading contemporary music interpreters.

COPENHAGEN
The Royal Danish Ballet presents a programme of new choreography, including a creation by Kim Brandstrup, at the Royal Theatre.

AMSTERDAM
A major retrospective of the late 19th century French painter Odilon Redon opens at the Van Gogh Museum on Friday. It brings together 180 works, including some important pieces which have only recently come to light. The aim is to explore Redon's development, sources and influence, and to demonstrate how the dreamlike nature and Symbolist aspects of his work provided a link between 19th century Romanticism and 20th century Surrealism. The exhibition comes from Chicago and moves to the Royal Academy in London in February.

Royal Opera and the twisted Ring

Daved Murray looks at why the new cartoon-style version of Das Rheingold led to booing at Covent Garden

There was tempestuous booing after the Royal Opera's new, cartoon-style *Das Rheingold* last Thursday. It sounded genuinely angry and disappointed, not orchestrated in advance, and it was quite specific. Once the soloists and the conductor, Bernard Haitink, had been warmly applauded, one after another, the producer and designer were greeted with howls of fury on a truly Wagnerian scale, unprecedented – within recent memory, anyhow – at Covent Garden.

You might think: Wagnerians are a conservative lot, they want all the hoary old paraphernalia intact, and the story enacted with uncritical piety. The Wagnerites, here including many Wagner-lovers who were seeing their first *Ring* in the flesh, would retort: this *Rheingold* production is unforgivably silly, facetious, inconsequent, *diminishing*. Yet it is worth remarking that on the next night, *Die Walküre* – staged in just the same spirit – earned as much delighted applause as booing: less newsworthy, but an interesting fact. The seeds of the trouble (honestly fated, as I think) lay in Wagner's own notion of the *Gesamtkunstwerk*, the complete artwork – which could only be opera – in which everything heard *and* seen should be dictated by an overriding idea. In Wagner's case that was easy; his own taste was for picturesque naturalism, and at Bayreuth he used to supervise every detail of the sets, the costumes, the wigs, the action. Long after he died, the family establishment that Bayreuth became was still dedicated to preserving all those details.

Before then, producers and designers were barely nodded to. Their tasks were respectively to organise the chorus and help the singers avoid bumping into each other, and to illustrate the librettist's notional locales attractively, and when appropriate impressively. Earlier composers – Monteverdi, Mozart – were often closely involved with the staging, but in the later 19th century the burgeoning of operatic apparatus made that unfeasible for anyone less despotically privileged than Wagner. When Wagner died, however, the concept of the *Gesamtkunstwerk* lived on; and who, in the absence of the original genius, was to realise it?

Part of the problem, as Wagnerians outside Bayreuth discovered, was that literal adherence to Wagner's detailed stage prescriptions soon looks naff, fusty, lifeless. Our tastes in stage manners change. The Royal Opera's clever producer and designer, Richard Jones and Nigel Lowery, must have decided early on that there was no mileage to be got out of staging Alberich's transformations into dragon and toad for real, nor the entry of the gods into Valhalla across the rainbow bridge, nor the wild ride of the Valkyries.

Part of the answer came from two visionary designers, Edward Craig and the Swiss Adolphe Appia, and it was driven home by Wagner's grandson Wieland. Simplify everything, even the visible action; take fussy visual details as read, and eliminate them; use modern lighting to set the stage suggestively and strip it down to an arena for the singing actors. Above all, honour the *concept* of the work – which may have to be winkled out from its old-fashioned format.

Never mind that some great operas seem not to be based on any "guiding concept" at all; for Wagner's, at least, we have the composer's own testimony that his were. Now, *Der Ring des Nibelungen* is a heady brew of despairing idealism and political prophecy, Jungian mythology before its time and importunate *Affekt*, fake-primeval epic and ripe 19th-century melodrama. If there really was some overriding Wagnerian conception of the whole, to grasp it we should need to reformulate it in our own modern terms – which are inexorably different.

Ring producers in the 1970s and 1980s liked to fix it to some one modern concept: of political power, or class resentment, or familial tragedy. The peculiarity of the Jones/Lowery staging is simply that it is a pure post-modernist affair, where the designer's fancies have equal weight with anything else. It offers no all-in reading of the operas, but plays catch-as-catch-can with any ideas that they happen to trigger off, with visual cues taken from Picasso, Ernst, Klee and others too numerous to mention. Making the giants Fasolt and Fafner into Siamese twins who share a suit is one such. Others include garbing the Rhinemaidens as gross rubberised nudes, having Fricka as well as Froh and Donner grow a long beard when deprived of the golden youth-apples, and putting Brünnhilde into a tracksuit with a Hallowe'en top and a dinky cheerleader's skirt. During the innocent-age-of-the-world prologue, the Rhinemaidens had to weed their way among a horde of strange, blue-uniformed persons hustling in slow motion toward stage left, reminiscent of Thurber's cartoon for "The Day the Dam Broke" but quite unexplained.

In *Die Walküre*, those personages became corn-dolly figures with lofty headdresses. One of them, preternaturally tall, served as the tree from which Siegmund must draw the magic sword, and he had plainly outlined *shoulder-pads*. At the crunch point, Siegmund and Sieglinde pulled at his scarecrow arms in opposite directions. Fricka's cart, originally "drawn by rams", was an armoured car: okay, but did it have to sport push-button windows?

For the epic battle which culminates in Siegmund's death, the lights go out at the crucial moment; and come on again, after an embarrassing pause, to reveal the remaining four characters in an absurd low-budget-sitcom row at the grave. The brute Hunding is not felled by Wotan's scathing gaze, but scrambles off unharmed. Cruellest of all, when the loyal but guilty Brünnhilde prevails upon her father to mitigate her sentence – not to be snatched up by the first comer, but only by a great hero – and the heart-tearing crescendo reaches its climax, instead of the intended father-daughter clinch we have Wotan breaking suddenly away and retreating across half the stage. One of the great cathartic moments in opera is reduced to something shrinking and evasive.

This *Rheingold* founders upon inconsequence and sheer lack of purpose. At the close of the last Royal Opera *Rheingold*, Götz Friedrich had the effete gods tripping up Georges Guetary's "Stairway to Paradise" as decadently as could be, but at least they thought they were going somewhere. Here they do nothing but chase a falling star, literally and ineffectually – and utterly at odds with Wagner's triumphalist music, though like all the rest of the score Haitink judges it to a nicety.

Even John Tomlinson's superbly robust Wotan can make little of that, and in the earlier stages Covent Garden's regular Alberich, Ekkehard Wlaschiha, is hobbled by being turned into a mere figure of fun. Robin Leggate's artful Mime awaits *Siegfried* for his fruition. Commendations to Paul Charles Clarke's Froh and Peter Sidhom's Donner for services in difficult circumstances, and to Jane Henschel, whose distinguished Fricka at last escapes her caricatured guise in *Die Walküre*; and to Gwynne Howell's unexpectedly sensitive Fasolt, Carsten Stabell's Fafner and Rita Cullis's Freia.

Robert Tear's Loge is of course incorrigibly engaging and musical. In *Die Walküre*, Ulla Gustafsson's very young, shy Sieglinde wields an affecting timbre and brave purpose, Poul Elming's Siegmund adds a raw, vulnerable edge to a finely developed portrayal (stopping short of the ultimate exposure), and Matthias Hölle is a Hunding of sterling menace. The great discovery is the tall American Deborah Polaski's Brünnhilde: recklessly heroic singing, and a rare degree of wholehearted commitment. With some more intimately searching tone-colour, she must soon be one of the great Wagner singers of our day.

Covent Garden's regular Alberich, Ekkehard Wlaschiha (left), is hobbled by being turned into a mere figure of fun

Nash Ensemble

Lighting up the Wigmore

The Nash Ensemble, which over the last three decades has established itself as one of Britain's foremost chamber groups, invests so much in its performances that each concert becomes a special occasion. So much so, that Saturday's programme at the Wigmore Hall celebrating its 30th anniversary needed no "gala" trappings: it was imaginatively put together and no less imaginatively played.

The Nash musicians are almost legendary for being great communicators: they play with an obvious sense of enjoyment, balanced by that seriousness of approach that makes them such polished and stimulating performers. They are dedicated to exploring the byways of the repertory – the group's make-up gives it versatility – with a special commitment to new music. They are equally noted for their interpretations of French music. Indeed, Saturday's programme, the first in a series of six entitled *A Golden Age of Parisian Music*, was the start of a long birthday celebration. Between now and March, the Nash players will be covering the work of 13 composers from Saint-Saëns to Poulenc, and providing audiences with many a rare treat.

We heard four composers on Saturday, beginning with Albert Roussel's busy *Divertissement* for piano and wind quintet. It made a piquant curtain-raiser, a complete contrast to the Ravel *Trois Poèmes de Stéphane Mallarmé* that followed, with Sarah Walker the consummate soloist. She projected the poet's lines with intensity against the shimmering accompaniment of the two flutes, two clarinets, string quartet and piano. Saint-Saëns's Septet drew the audience back a musical generation to a more robust idiom and very different sonorities. It is not top-drawer Saint-Saëns – the melodies are unadventurous, often unmemorable – but the Nash's smiling, spirited performance made good its shortcomings.

The second half of the evening was devoted to two works by Ernest Chausson: the *Chanson perpetuelle*, one of his last works, also exists in the version with piano quintet accompaniment performed here. Once again, Sarah Walker floated her mezzo with a perfect balance of ardour and lyricism. A ravishing performance of Chausson's Concerto for violin, piano and string quartet rounded off the evening, with Ian Brown the virtuosic piano soloist, and the violinist Marcia Crayford alert to the work's deeply-felt emotion. This was music-making that brought a reminder of how the Nash Ensemble has enhanced the London music scene, and it whetted the appetite for more.

John Allison

INTERNATIONAL ARTS GUIDE

BERLIN

MUSIC
Staatsoper unter den Linden The Barenboim-Chéreau production of Wozzeck can be seen tonight and Sun, with a cast headed by Catherine Malfitano, Falk Struckmann and Graham Clark. A new production of Telemann's Orpheus opens on Thurs in the Apollo-Saal, conducted by René Jacobs, with a cast headed by Janet Williams (200 4762/2035 4494)
Deutsche Oper This week's repertory includes John Dew's new production of Andrea Chenier with Lisa Gasteen, Richard Margison and Alexandru Agache, plus Le nozze di Figaro, Tosca and Die Zauberflöte. An Aids gala concert on Fri features Agnes Baltsa, Marilyn Horne, Neil Shicoff, Siegfried Jerusalem and others (341 0249)
Philharmonie Daniel Barenboim conducts the Berlin Philharmonic Orchestra on Fri, Sat and Sun morning in Bruckner's Eighth Symphony (2548 8132)
THEATRE
The Schaubühne has a new production of Goldoni's Country trilogy, directed by Erik Vos (890023). Peter Zadek's Vienna Festival production of Shakespeare's Antony and Cleopatra can be seen at the Berliner Ensemble, with a cast headed by Gert Voss and Eva Mattes (282 3160). The Deutsches Theater presents a British Playwrights Week from Oct 25 to 30 in association with London's Royal Court Theatre. New plays by Martin Crimp, Kevin Elyot, Meredith Oakes, David Greig and David Spencer will be performed in German (2844 1225)

NEW YORK

THEATRE
● Uncommon Women And Others: a revival of Wendy Wasserstein's play about friends at a small New England women's college, who meet for tea and then for a reunion six years later. A Second Stage Theatre production directed by Carole Rothman. In previews, opening Oct 26 (Lucille Lortel, 121 Christopher St, 239 6200)
● Three Tall Women: a moving, poetic play by Edward Albee, dominated by the huge, heroic performance of Myra Carter. She, Jordan Baker and the droll and delightful Marian Seldes represent three generations of women trying to sort out their pasts (Promenade, 2162 Broadway at 76th St, 239 6200)
● Angels in America: Tony Kushner's two-part epic conjures a vision of America at the edge of disaster. Part one is Millenium Approaches, part two Perestroika, played on separate evenings. The cast includes F. Murray Abraham (Walter Kerr, 219 West 48th St, 239 6200)
● Philadelphia, Here I Come!: Roundabout Theatre Company's revival of Brian Friel's 1964 Irish drama, with Milo O'Shea, Robert Sean Leonard, Jim True and Pauline Flanagan. Directed by Joe Dowling. Final week (Roundabout, Broadway at 45th St, 869 8400)
● An Inspector Calls: J.B. Priestley's 1945 mystery in a stunning re-interpretation by Stephen Daldry, first seen at Britain's National Theatre (Royale, 242 West 45th St, 239 6200)
● Guys and Dolls: a top-notch revival of the 1950 musical about the gangsters, gamblers and good-time girls around Times Square (Martin Beck, 302 West 45th St, 239 6200)
● Carousel: Nicholas Hytner's bold, beautiful National Theatre production from London launches the 1945 Rodgers and Hammerstein musical towards the 21st century (Vivian Beaumont, 150 West 65th St, 239 6200)
● Kiss of the Spider Woman: pop star and ex-Miss America Vanessa Williams has taken over the title role in the long-running Kander and Ebb musical directed by Harold Prince (Broadhurst, 235 West 44th St, 239 6200)
● Crazy for You: Gershwin's tunes and Susan Stroman's choreography are the central pleasures of this light and frothy entertainment, now in its third year on Broadway (Shubert, 225 West 44th St, 239 6200)
● Blood Brothers: Willy Russell's musical about twins who, separated at birth, eventually meet and fall in love with the same girl. The cast includes Carole King (Music Box, 239 West 45th St, 239 6200)
OPERA/DANCE
Metropolitan Opera This week's highlights are Arabella tonight and Fri with Kiri te Kanawa and Marie McLaughlin, Tosca tomorrow and Sat with Carol Vaness and Luciano Pavarotti, and Le nozze di Figaro on Wed with Bryn Terfel and Dawn Upshaw. This month's repertory also includes La boheme and Cav and Pag (362 6000)
State Theater New York City Opera's autumn season runs till Nov 20. This week's performances are daily except tonight and Wed, and feature Borodin's Prince Igor, Mefistofele, Madama Butterfly, La boheme, Die Zauberflöte and Carmen (870 5570)
CONCERTS
Carnegie Hall Emerson String Quartet, with pianist Menahem Pressler, give a recital tomorrow featuring works by Dvorak and Janacek. Roger Norrington conducts the Orchestra of St Luke's on Sat in a Tchaikovsky programme featuring pianist Jon Kimura Parker. Dennis Russell Davies conducts the American Composers Orchestra on Sun afternoon in works by Sessions, Lerdahl and Huss (247 7800)
Avery Fisher Hall Paavo Berglund conducts the New York Philharmonic Orchestra tomorrow in works by Kokkonen, Sibelius and Prokofiev, with violin soloist Midori. Thurs, Fri morning, Sat and next Tues: Zdenek Macal conducts Musorgsky, Stravinsky and Berlioz, with violin soloist Co-Liang Lin. Fri: Seiji Ozawa conducts Boston Symphony Orchestra in Berlioz. Sun afternoon: Richard Goode plays Beethoven piano sonatas. Sun evening: Pinchas Zukerman directs English Chamber Orchestra (875 5030)
Alice Tully Hall Oct 24: Bryn Terfel. Oct 26: Thomas Hampson. Oct 30: Borodin String Quartet (875 5050)

PARIS

CONCERTS
Théâtre de la Ville Kronos Quartet gives a recital this evening featuring works by Gubaydulina, Gorecki and others (4274 2277)
Salle Pleyel Yevgeny Svetlanov conducts Russian State Symphnoy Orchestra tonight. Günther Herbig conducts Orchestre de Paris on Wed and Thurs in works by Schumann and Bruckner. Pinchas Steinberg conducts Orchestre Philharmonique de Radio France on Fri in Saint-Saens and Ravel, with cello soloist Anne Gastinel (4563 0796)
Théâtre des Champs-Elysées Emmanuel Krivine conducts Orchestre National de Lyon tomorrow in a programme including Debussy's La Mer and John Adams' The Chairman Dances. Wed: Boris Belkin and Salzburg Chamber Soloists. Fri: Jean-Jacques Kantorow conducts Ensemble Orchestral de Paris in Prokofiev, Mendelssohn, Saint-Saens and Bruch, with various violin soloists. Sun morning: Michel Béroff and Jean-Philippe Collard duo piano recital (4952 5050)
OPERA
Bastille Final performances of Bob Wilson's version of Madama Butterfly are tonight, Wed and Sat, with cast headed by Miriam Gauci and Giacomo Aragall. The next opera production is a revival of Le nozze di Figaro, opening Nov 5 (4473 1300)
Châtelet The new Ring production, conducted by Jeffrey Tate and staged by Pierre Strosser, continues with performances of Siegfried on Oct 21 and 27, and Götterdämmerung on Oct 23 and 29. There will be two complete Ring cycles between Oct 31 and Nov 13. The cast is headed by Robert Hale, Gabriele Schnaut, Heinz Kruse and Kurt Rydl (4028 2840)
DANCE
The Paris Opéra Ballet's 1994-5 season opens at the Bastille on Oct 25 with the traditional Grand Défilé, followed by Balanchine's Le Palais de cristal (Symphony in C) to Bizet, The Four Temperaments to Hindemith, and Jerome Robbins' Glass Pieces to Philip Glass (12 performances till Nov 17). The season also includes a young dancers programme, Nureyev's production of Swan Lake, a mixed bill including works by Balanchine and Martha Graham, John Neumeier's Magnificat and a Nijinska-Nijinsky programme (4742 5371)
JAZZ/CABARET
Buster Williams Quintet is in residence this week and next at Lionel Hampton Jazz Club. Music daily from 10.30pm to 02.00am (Hotel Meridien Paris Etoile, 81 Boulevard Gouvion St Cyr, tel 4068 3042)
FESTIVAL D'AUTOMNE
A Bob Wilson adaptation of Dostoyevsky continues daily till Sun at Bobigny (4831 1145). Other highlights include Robert Lepage's Seven Streams of the River Ota (Nov 18-26), and The Merchant of Venice directed by Peter Sellars (Dec 6-17).

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(Central European Time)

MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1615, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

The final chapter

Electronic media are challenging the book, says Peter Aspden

After several years of successful expansion, the UK publishing industry is experiencing a rare twitch of self-doubt.

It has been shaken, a little, by the prospective demise of the net book agreement, which allows publishers to set the retail price of books to prevent discounting. The agreement is due to be reviewed by the restrictive practices court, but seems to be unravelling already as publishers and retailers divide over its continued usefulness.

However, it is the growth in electronic media and new channels of information that has really got the industry stirred. The prominence of software stands at this month's Frankfurt Book Fair was a portent that publishers are finding hard to ignore: could developments such as these be the death-knell for the book-as-we-know-it?

The snapshot of a family at leisure in the 21st century, previously constructed by the fertile imaginations of science-fiction writers, is now a more tangible vision: one parent snaps a credit card-sized disc of a novel into a compact computer with CD-Rom drive, sets the automatic scroll at the appropriate reading speed and relaxes for the evening; another prepares dinner from a recipe delivered in multimedia format on the kitchen screen; meanwhile, the children use interactive programmes to research their homework. That already assumes that all of them are not, *en famille*, watching television or a movie, or listening to music.

The idea that the family home's bookshelves will be creaking with volumes of the *Encyclopaedia Britannica*, special interest reference books and a lifetime of novels seems sadly anachronistic.

Of course, publishers have been studying these developments for years; what has prompted the latest dip in confidence has been the recent check in the publishing resurgence of the past decade. From 1981 to 1993, the number of new titles (including new editions) published in the UK nearly doubled from 46,215 a year to 83,780. Even the expensive sector of scientific, academic and professional books recorded a near doubling of new titles.

This year, so far, has been a different story. Mr Clive Bradley, chief executive of the Publishers Association, describes the summer-to-Easter period as "disappointing". Despite a pick-up over the last couple of months, sceptics, who have all along insisted that the industry's expansion was unsustainable, are making their voices heard. They have long awaited a "turning-point" and, given the speed of developments in information technology, it is only natural that the very future of the book has become a focus for concern.

The two developments that threaten the book format are digitisation and the multimedia revolution. Digitisation, which allows text and graphics to be stored electronically, provides easy access to very large amounts of information. Multimedia packages present that information through text, graphics and sound which the user can manipulate.

'It is still common for people to find CD-Roms and screens relatively cumbersome'

Vital markets such as education and business are expected increasingly to turn to such formats. Yet Mr Bradley points out that the print medium is still holding its own: "Even in reference material, it is still a common reaction for people to find CD-Roms and screens relatively cumbersome, it is often much quicker to pick up a book.

"Multimedia, though it sounds fine in principle, needs to be well done to keep the attention for longer than a few minutes, almost like a movie. That costs a lot of money."

He also points out that the information revolution has not been matched by a revolution of the human mind: "We are all still waiting for someone who can awaken the mind in a new way, an Einstein for the era, but it has not happened yet. Many of the new packages around do not offer a great deal more than modern text books."

When it comes to fiction, Mr Bradley finds it even more difficult to conceive of electronic publishing having a significant impact on book-buying habits. The most advanced development in this area is in interactive packages, allowing the reader to choose between several different endings, according to his or her mood.

Once the novelty value has worn off, it is hard to see these packages competing against the attractions of a slim, cheap paperback that manages to make up its own mind, Mr Bradley believes.

"Interactive media are fine for developing curiosity and search skills, but less satisfactory for books to be read sequentially," he said.

A measure of publishers' confidence in the book is their commitment to the most threatened sector of the market: the reference book. It might be thought that publishers would be bringing out new reference material only in CD-Rom form, phasing out the book in much the same way as record companies phased out vinyl records in favour of compact discs.

But that does not appear to be the case. Chambers, which specialises in reference books, has just brought out a new encyclopaedic English dictionary, aimed primarily at secondary school children. Although it will come out in electronic form next year, Mr John Clement, chairman of Chambers Harrap, says he expects the book to out-sell the electronic version by about 10 to one.

"We are not expecting such books to die out in the near future," he said. "The book still has the huge advantage of sheer facility, primarily because of its portability and the pleasure which can be had from browsing it."

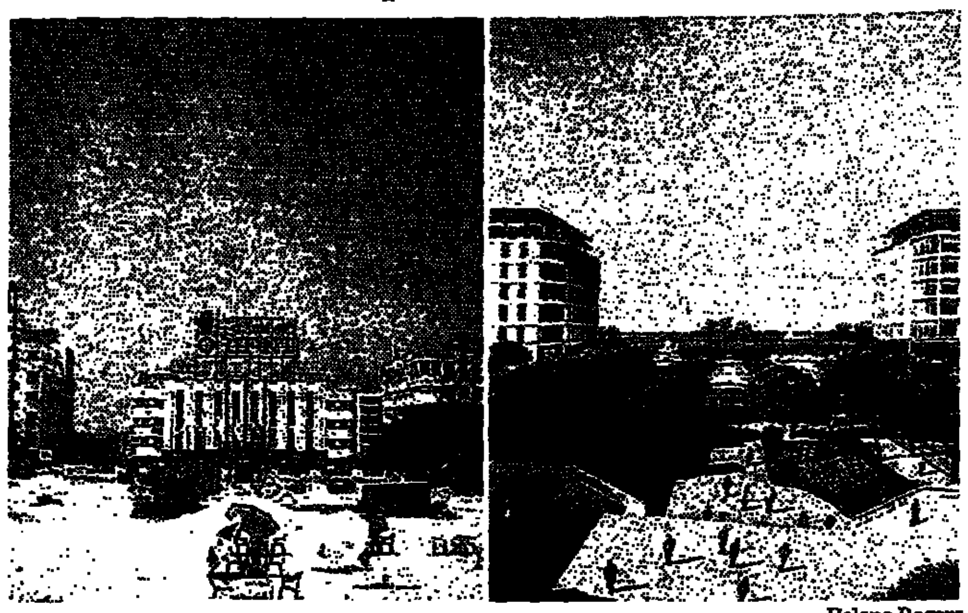
Mr Bradley echoes this sentiment: "The technology of producing a book is cheap, the culture of reading a book is very well-established. That will take it a long way."

But once the costs of the new electronic media begin to spiral downwards, will the physical *frisson* of leafing through a new volume be enough to ensure its survival? And will the new, computer-smart generations experience it at all?

The view that curling up with a good book is one of the timeless pleasures of civilised life is about to face its most radical challenge yet.

The modern face of an ancient city

Central Beirut has been razed in order to revive it as a financial capital, writes Mark Nicholson



Helene Rogers

Beirut's Martyr Square (left) will be demolished and (right) the artist's impression of the new city

There is a gaping hole where Beirut's heart used to be. Gone are the ancient markets, art deco cinemas, coffee shops and bordellos that made the Lebanese capital the Middle East's most glamorous playground and vibrant financial centre.

The remnants of the city's heyday remained until two months ago. But in recent weeks 150 buildings have been demolished, with another 150 due to follow.

From the city's ring road there is now a view of the Mediterranean over a wasteground of tarmac: 1.8m sq m of city-centre land that is to be the site of Beirut's revival.

Solidere, the $1.8bn property company set up through a flotation earlier this year, has begun its task. It is rebuilding central Beirut.

For 10 years, Mr Rafik Hariri, Lebanon's prime minister, has cherished a scheme to recreate Beirut as the financial capital of a newly peaceful Middle East. Solidere is his creation, and with a 7 per cent stake in the company, he is its largest declared shareholder.

Solidere will now oversee the building of offices for the multinationals, banks and companies that Mr Hariri believes are keen to re-enter a region opening its borders and economies. Hotels will go up for the tourists, who he hopes will now return to the region. The Lebanese people's traditional talents for trade and brokerage will be harnessed. And an economy based on financial services, traditionally worth some 70 per cent of Lebanon's GDP, will be revived.

But even as Solidere is demolishing central Beirut, Mr Hariri's motives in launching the project, its substance, and its wisdom, are all being questioned.

Many Lebanese are deeply suspicious that Mr Hariri, a man who made a multi-billion dollar fortune as a contractor in Saudi Arabia, should have created a big contracting company to redevelop the centre of Beirut.

Some of the landowners in central Beirut, who were forced to exchange their land for shares in Solidere say their property was heavily undervalued at about $1,500 per square metre. Land prices on the fringe of Solidere's allocated land are already at $3,000 per square metre, and rising, they say.

"Hariri is going to make lots of money from the downtown project," says Mr Adnan Iskander, a political scientist at the American University of Beirut. "This is not all just for the public interest."

Mr Hariri maintains, however, that the prime minister's Solidere shares are held in trust and all profits will go to his charitable foundation, which has paid for the education of thousands of Lebanese in recent years.

Whether or not Mr Hariri stands to gain personally from the redevelopment, many are questioning the need to raze so much of the city in order to revive it.

Mr Assem Salaam, an architect in Beirut for more than 30 years and one of the hard core of vocal opponents, believes Solidere has destroyed the "social tissue" of downtown Beirut.

"Central Beirut had tradition and a memory. It played a role in being a meeting point of Lebanon's various communities. It played a role in the fusion of social classes. It had an enormous richness," he says.

He believes that no more than 20 buildings in the city centre were truly beyond redemption and can see no justification for the scale of Solidere's redevelopment.

Landowners should have been allowed to create smaller property companies to redevelop the city centre organically from its ruins, he says. "You are not developing from scratch an Abu Dhabi or a Jeddah or a Riyadh," he says alluding to Mr Hariri's background as a Gulf contractor. "You are touching a medieval, Mediterranean city."

Beirut will be the biggest building site in the Middle East for the next couple of years

Solidere has adapted its plans in response to these criticisms, says Mr Nasser Chammaa, Solidere's chairman. The number of old buildings to be retained and restored has been increased to 266 from just over a hundred to begin with – and the company is canvassing architectural opinions on ways of recreating some of the old souqs.

"All of a sudden a portion of our memory has disappeared," he acknowledges. "For the public it's slightly difficult – but that will have to continue."

Mr Hariri and his staff at Solidere believe that only through ambitious, comprehensive redevelopment can Lebanon succeed. They liken Beirut's rebuilding to west Germany's reconstruction after the second world war – an unmissable opportunity to build an expanded and modernised infrastructure virtually from scratch.

Mr Hariri is seeking to create the kind of momentum necessary to bring back the skilled, Lebanese middle-class that fled the 15-year civil war – and revive the flows of private Gulf Arab wealth to the city. Both ingredients require confidence. Like Canary Wharf in London's Docklands, the project is an investment designed to generate confidence. It is that confidence that will then lead to the city's revival.

But in selling the new Beirut, even senior members of Lebanon's government differ over quite what a revived Beirut's economic role would be.

Some, such as Mr Hariri, believe that Lebanon has a future as a regional financial hub, despite competition from Israel, which, with an economy 10 times larger, has its eyes set on the same target. Gulf Arabs would much rather invest in Lebanon, they argue, and Syria intends to use Beirut as a catalyst for its own gradual economic opening.

Others, including Mr Riad Salame, the central bank governor, see Lebanon's future as in complementary development with Israel. "We have different vocations," he says. "Israel is a predominantly industrial, high-tech country, but we will address the role of an intermediary. It is like the relation between, for instance, Japan and Singapore in the Far East."

There are also political uncertainties over the scheme. Mr Hariri and his hand-picked team at Solidere are identified with the project to such a degree that many doubt whether the country's rehabilitation could survive his departure – in a land where the tenure of political leaders has been as precarious as anywhere in the world. Similar fears revolve around the future of Syria. Mr Hariri recently called Syrian President Hafez al-Assad the "unknown soldier" of the reconstruction project. Few believe Lebanon, and its economy, could survive a turbulent succession in Damascus unscathed.

Neither Mr Hariri nor Solidere can afford to be troubled by such concerns. Instead, they are hurrying to complete the basic infrastructure within the next two and a half years. "We will have the critical mass of central Beirut in place in five to seven years," says Mr Salame.

It will be a long time before anyone can tell whether Beirut can revive itself as a financial capital and become "the ancient city of the future" of Solidere's slogan.

There are some hopeful indicators. In the last two years, Gulf Arabs are believed to have pumped $1bn into the city's real estate market and some 40,000 Lebanese expatriates have returned. Buying by Gulf Arabs has also pushed Solidere's share price from its issue price in June of $100 to nearly $170.

The only certainty for the next couple of years is that Beirut is becoming the biggest building site in the Middle East, but Mr Hariri's supporters argue that there is no better alternative. "None of our critics have come up with a project for rebuilding the centre which is different from ours," says Mr Chammaa.

LETTERS TO THE EDITOR

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Fax 071 873 5938. *Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution*

Right to livelihood, not 'pristine poverty'

From Mr Patrick McCully.

Sir, The World Bank's Tim Cullen ("Sleepless and irritable in suburbia", October 10) mocks the position of those who seek to halt the World Bank's support of socially and environmentally destructive projects, in particular large dams. "This group", claims Cullen, "would like the bank to steer clear of any activities that challenge the right of people to live in pristine poverty...". Presumably Cullen counts among the members of "this group" International Rivers Network – author of the recently released Manibeli Declaration. This calls for a moratorium on World Bank-funding of large dams pending a comprehensive review of the costs and benefits of its past dam projects – and the more than 2,000 organisations from 44 countries who have endorsed the declaration.

Cullen arrogantly dismisses the misery caused by the Bank's large dam programme, saying merely that people "may have to be resettled". In reality, about 10m people have been directly displaced by World Bank-supported dams over the past 50 years. More enlightened employees of the Bank admit that dam displacement takes part on a massive scale and tears apart poor, but often self-sufficient, communities, robbing them of their land and jobs, and increasing rates of malnourishment, sickness and death.

At stake is not people's right to live in "pristine poverty", but their right not to have their cultures, self-respect and livelihoods destroyed. Large infrastructure projects, says Cullen, merely "have the potential to cause environmental damage": in the real world, Bank-funded dams have destroyed hundreds of rivers, wiped out riverine and coastal fisheries, and drowned huge areas of fertile farmland and diverse forests.

If the World Bank were, as Cullen claims, really concerned about the well-being of the billions of people without access to electricity or clean water, it would not be promoting uneconomic and technically flawed dam projects which have in most cases failed to support rural water supply or electrification programmes. The World Bank's own "self-critical reports" which Cullen boasts of (and which the Bank invariably ignores) show that its large irrigation projects have been stunningly inefficient, and have had serious environmental side effects. A 1991 World Bank study revealed that in almost half of the irrigation projects surveyed, crop production had actually fallen after project construction.

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How loan pricing is set

From Mr Paul J L Rex.

Sir, I could not disagree more strongly with Dominique de la Barre d'Erquelinnes' letter (October 5) which propounds one of the central errors committed by many lending banks. Even a cursory reading of the comments on the syndicated loans market in Monday's FT gives a clear picture of how loan pricing is actually being set at present.

The banking industry has been characterised by extreme overcapacity for much of the past two decades. As in any other industry, this inevitably pushes down prices, and many decisions to lend at low rates have been rationalised by an over-optimistic view of the general provisioning costs which must be covered by the loan margin. Since actual loan losses are highly sensitive to the economic cycle, inadequate pricing is often masked in the early years of development of loan portfolios until heavier, specific provisions are required. Once the pricing inadequacy is exposed, many banks exit one lending sector and enter a new one, only to repeat the same mistake in a different setting -creating a "cascade" of problem loans.

A more rational decision would have been, as Ms de la Barre suggests, to refuse to lend, but this would have involved many lending officers and their line managers putting themselves out of work.

Annual provisioning charges linked to the riskiness of the underlying transactions will not solve the problem of overcapacity. However, they will force bank managements to confront the explicit cost of pursuing a given lending strategy and make it clear that much lending business is loss-making over the course of the economic cycle.

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A percentage of which market?

From Mr Michael Goldman.

Sir, Market definitions present notorious difficulties as is demonstrated by the Pentos claim that Dillons at its low in June had a market share of 31.5 per cent ("Pentos £36m in the red after exceptional costs", October 12).

The annual value of the UK book market is some £2.5bn and Dillons' sales cannot be more than £200m, which is 8 per cent. Even if the market is defined more narrowly as consumer books, £200m equates to about 12 per cent. What market definition produces a figure of more than twice that level?

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Not economic sophistry, but verifiable reality

From Mr Stephen Butler.

Sir, Stephen Beer (Letters, October 8) perpetuates a common misconception about the supposed impracticality of "simple economic theory" by confusing two aspects of market behaviour. All market actors who seek returns want to be correct in their forecasts, not just those concerned for their political reputations.

Such motivations are not only no guarantee of good judgment (witness former chancellor Norman Lamont's hapless performance on Black Wednesday), but are in fact irrelevant in considering markets' real utility as the best available collectors, processors, and disseminators of information.

Mr Beer's "casual observation" that "most market participants can be wrong some of the time" in fact demonstrates this virtue.

No single person or group will likely be right about the future, or even about very much of the present. However, in generating prices out of countless individual calculations, markets co-ordinate the limited bits of information that participants actually do have – and far more regularly and capably than any central institution.

This is not sophistry, but historically verifiable reality.

Yes, financial markets are full of small traders who blindly follow trends, which may themselves be based on unreasonable or unfounded expectations. Yes, they are prone to panics and the occasional disproportionate influence of a George Soros, and sometimes require correction. They are indeed imperfect and an inappropriate object of anyone's "faith".

Nonetheless, their collective best guesses about future developments such as inflation are based on far more information than could ever fit into a brief on Bank of England governor Eddie George's desk.

Distortions in markets are exceptional by definition, and they correct themselves as new or hitherto under-appreciated information comes to light. In central banks however, under the guise of "correction", distortion is the name of the game.

Casual observation suggests to me that such intervention is very rarely successful or beneficial – an odd foundation for such important and expensive institutions.

Practical experience has exposed the folly of attempting to direct goods and services centrally.

Why are we still willing to countenance similar discretionary power regarding bonds and currencies?

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Monday October 17 1994

Ulster's missing centre

John Major's political skills probably do not extend to stage-managing the internal politics of the loyalist paramilitaries in Northern Ireland. The timing of their ceasefire announcement last week, on the eve of his speech to the Conservative party conference, was therefore either a stroke of luck for the prime minister or, possibly, a deliberate present to him from the loyalist leadership.

The loyalists, like the mainstream Ulster Unionists but so far unlike the Rev Ian Paisley's Democratic Unionists, have apparently decided that "the union is safe" in Mr Major's hands. They believe the IRA's cessation of violence since August 31 (except as a brutal method of policing its own urban strongholds) is an admission of defeat. They do not believe, as Mr Paisley does and as Sinn Féin claims to, that the IRA ceased fire only because Britain has lost interest in Northern Ireland and is looking for a way out. Mr Major's promise of a referendum on any new arrangement has reassured them, as it has unionist opinion generally. That pledge gives the majority in the province a veto which was not granted to it when Mr Major's predecessor negotiated the 1985 Anglo-Irish agreement.

Opposite expectations

So Northern Ireland begins this week free from the immediate fear of terrorism, for the first time in 25 years. That is a blessed relief, for which Mr Major certainly deserves his share of credit, along with his Irish opposite number, Albert Reynolds, and the leader of the main nationalist party in Northern Ireland, John Hume.

But to call this ceasefire "peace" would be premature because it is based on opposite expectations. Loyalists believe the United Kingdom is safe; republicans that they are on the way to a united Ireland. At least one of those expectations is going to be disappointed; the British and Irish governments may even, as they try to square the circle, convince both sides that they have been betrayed.

That is the fear. The hope must be that peace will find its own momentum; that on neither side will paramilitary leaders wish to incur the odium of breaking it. That depends in part on those leaders themselves gaining psychological benefits from being seen as "men of peace" rather than "men of violence". The effort to include them in negotiations is therefore justified. But no one should lose sight of the fact that in electoral terms these are fringe parties. They may have the ability to wreck a settlement. They do not have a mandate to negotiate one.

Crucial breakthrough

Much has been made of the parallels between the "peace process" in Northern Ireland and those in South Africa and the Middle East. In so far as such parallels have any value, they suggest that the crucial breakthrough must be achieved by establishing a new relationship of trust and mutual understanding between the leaders of mainstream, representative parties in two hitherto bitterly polarised communities. That was achieved in South Africa between F W de Klerk and Nelson Mandela: the relationship reached a point where their respective communities' confidence in them depended on their ability to continue co-operating with each other and to demonstrate progress, and both understood that. Between Yassir Arafat and Yitzhak Rabin the same is objectively true, but the process is in difficulties because neither seems to be confident that the other has understood it.

Between John Hume and James Molyneaux, who would be the analogous figures in Northern Ireland, the process has not really started. The job of creating such a relationship has been left to the British and Irish prime ministers. The latter certainly need to be involved, because nationalists in Northern Ireland would not have confidence in a purely internal settlement. But in the last resort trust has to be built between the two communities, and the leaders of the mainstream, representative political parties on both sides have a crucial part to play.

Up to now Mr Hume has devoted his main energies to building an alliance of nationalist parties committed to constitutional methods; and Mr Molyneaux has been mainly concerned to keep the British government committed to maintaining the union. Both have succeeded, and deserve credit for their success. Now they need to concentrate on finding common ground with each other.

Snail's pace at Japan's MoF

It has been clear for more than two decades that the rigid compartmentalisation of the Japanese banking system is based on functional divisions that no longer correspond with market reality. Yet the deregulation of the system has been a peculiarly tortured exercise in gradualism, as last week's events demonstrated once again.

The decision by the Ministry of Finance (MoF) to sanction the plans of five city banks to set up securities subsidiaries is an important step. Yet it amounts to no more than a partial retreat from the restrictions of Article 65 of the Japanese Securities and Exchange Act – the equivalent of the US Glass-Steagall Act, which prevents banks from conducting securities business. While the city banks will now be permitted to underwrite corporate bond issues, their desire to compete in the wider securities area has been frustrated by the lobbying of the securities firms, whose profits have suffered in the aftermath of the bubble economy, and by the conservatism of the MoF's own officials.

That is not to say that limited concessions are worthless. In a world where corporations increasingly cut out the banking middleman and go direct to the markets for funds, an entrée into the bond markets will be welcome to the city banks, just as it has already been welcomed by the long-term credit banks. But if regulation is to be aligned with market logic in bonds, why not in equities too?

Motor for change

Of the main forces for financial deregulation in Japan, bad debts are proving a far more potent motor for change than external pressure from the US and elsewhere. Last week, no doubt with a nudge from the MoF, Mitsubishi Bank paid Y200bn (£1.3bn) for a controlling stake in Nippon Trust, the troubled trust bank that is expected to record the first post-tax loss in Japanese banking history in its current financial year. Mitsubishi has, in compensation, been granted a mandate to explore all those trust bank activities which another recent set of semi-liberalising measures from the MoF has kept off-limits for the city banks as a group. In particular, Mitsubishi will have access to potentially lucrative pension fund management business, which will be a source of envy to its peers.

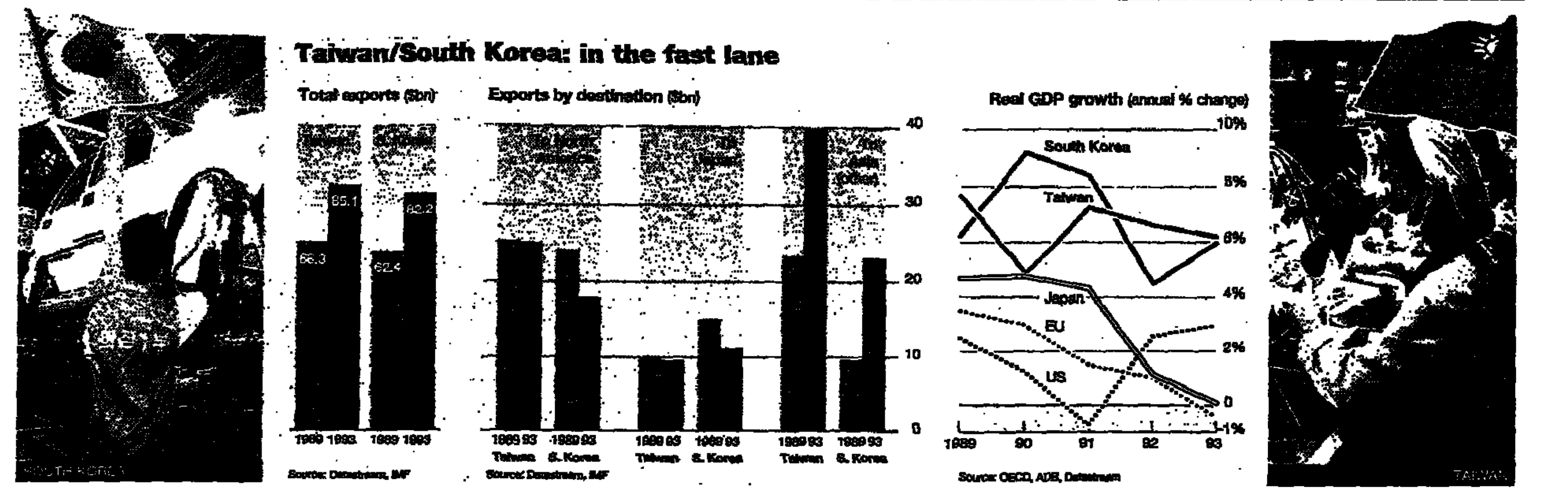
There are plenty of precedents for such a regulatory trade-off. In the US in the 1980s inter-state regulatory boundaries and functional dividing lines between banks and savings and loans were dropped on an ad hoc basis to divert the cost of socialising bank losses away from the federal budget. And in Japan last year Daiwa Bank was given carte blanche to conduct the full range of securities activities in exchange for rescuing the medium-sized broking firm Cosmo Securities.

Deficiency of assets

If there is a difference in the approach on either side of the Pacific, it is simply that the scale of the down payments on a regulatory exeat in Japan looks exceptionally large. For Mitsubishi Bank Y200bn is not enough to make a significant dent in its capital ratios, but it is still a high price to pay for a trust bank that has a sizeable deficiency of assets against liabilities.

Also striking is that liberalisation has not, in Japan, been synonymous with profit. Those foreigners who obtained seats on the Tokyo Stock Exchange just in time for the collapse of the Japanese stock market know that the experience can be as expensive as it is liberating. And despite the enormous freedom that Daiwa Bank now enjoys across the financial services markets, it has yet to translate it into a notably superior performance.

Given the extent of the bad debt problem in Japanese banking, there will probably be further cases where the MoF is prepared to drop its regulatory guard in the interests of stabilising the system more cheaply. Yet the overall pace of deregulation looks set to remain turgid. That will be a profound relief to the less efficient players in the system. The same applies to bankers in more flexibly regulated financial centres in other countries, since a disproportionate amount of Japanese financial business will continue to be diverted off-shore. It is a remarkable feature of this otherwise profoundly competitive nation that it should offer such generosity to its rivals in an important area of international trade.



Increasing regional competition is forcing Taiwan and South Korea to run faster to stay ahead, says **Guy de Jonquières**

The tigers face a challenge

The seemingly unstoppable rise of east Asia's "tiger" economies is one of the industrial miracles of the late 20th century. Admired, envied and sometimes feared, their vigorous export-led growth is often held up as a model for poorer economies – and a stiff competitive challenge for wealthier ones.

However, South Korea and Taiwan, the two biggest tigers, have reached an awkward age. Infant prodigies no longer, they are having to run harder to stay in the fast lane and to keep alive ambitions of joining the world's most advanced industrialised powers.

Influential observers in both countries argue that they are increasingly handicapped by baggage from their past. Shedding it, they say, requires a radical redefinition of the role of the state in their economies and adherence to stronger, market-based disciplines.

But although many businessmen and politicians pay lip-service to such calls for change, it is proving slow to materialise.

"Taiwan is still following tracks laid down in the 1950s and 1960s," says Dr Kai Ma of the Chung Hua Institute, a respected economic research centre in Taipei. "But the old rules no longer apply. Our whole economic and industrial strategy needs to be reviewed."

Dr Jwa Sung-hee of the Korea Development Institute, a leading economic research centre in Seoul, broadly agrees: "South Korea must set its economic house in order this decade. In terms of liberalisation, we are falling behind. If we don't act decisively now, we will be bypassed by late-developing Asian economies like Malaysia."

So far, such concerns have not dented economic performance. Taiwan is heading for 6 per cent real growth this year, and Korea for more than 8 per cent. Both enjoy negligible unemployment, buoyant exports and robust capital investment, while their stock markets have recently hit new highs.

However, new challenges are crowding in from all sides. The most pressing is fiercer regional competition. Countries such as China, Malaysia and Thailand, with wage levels as low as one-tenth of those in Korea and Taiwan, are undercutting them in older industries such as textiles and shoes – and may soon do so in newer ones like petrochemicals and steel.

The result is a shift of more labour-intensive production out of the tigers. Taiwan has lost 12 per cent of its manufacturing jobs since the late 1980s, as more than 20,000 companies have moved productive assets estimated at $20bn to mainland China.

The impact has been less dramatic in Korea, partly because, unlike Taiwan, it has avoided sharp currency appreciation. Nonetheless, regions such as Pusan, where traditional manufacturing industries are concentrated, have been hit hard.

The impact of competition from the emerging economies has been partly offset, however, by the rapid growth of regional markets, which both countries have been quick to exploit. South-east Asia has overtaken the US to become Korea's biggest export market. Despite Taiwan's ban on direct transport links with China, its exports to the mainland are expected this year to match those to the US.

But both countries are keenly aware that, to stay ahead of regional rivals, they need to raise their performance closer to levels in the industrialised world by shifting into activities with higher margins and value-added.

Each brings to that task contrasting competitive strengths, reflecting distinctive industrial structures evolved over the past 30 years.

Taiwan's economy is built on the spirited entrepreneurship of swarms of small manufacturing businesses, which account for most of its exports. Niche producers par excellence, they have prospered in sectors ruled by fashion or rapid technical change and have made Taiwan the world's largest exporter of bicycles and printed circuit boards for personal computers.

If Taiwanese are east Asia's skilled artisans, Koreans are its forgemasters. The sprawling *chaebol*, or family-controlled conglomerates that dominate the Korean economy, have long sought advantage in large-scale heavy industry, gambling ever larger investments in giant mass-production facilities.

This heroic risk-taking – long encouraged and underwritten by government support – has made Korea the world's biggest shipbuilder and its sixth largest producer of steel and cars. In all these sectors, further ambitious expansion is planned.

Despite these differences, the two countries share some important weaknesses. Both depend heavily on imported technology and components, above all from Japan, with which they run large trade deficits. These amounted last year to 6.5 per cent of Taiwan's gross national product and 3.5 per cent of Korea's.

Though Korean semiconductor makers have recently gained world market share in D-Ram memory chips, their achievement owes less to trail-blazing technology than to continued heavy investment in production capacity at a time when recession-bound Japanese producers were cutting back.

Most Korean and Taiwanese companies also remain "fast followers", not innovators, and lack strong international consumer franchises and marketing skills. Much of Taiwan's output is still sub-contract work for foreign companies, which distribute the products under their own names. Some Korean groups, such as Hyundai and Samsung, are trying to establish their brands overseas. But despite increased attention to quality, their products have yet to overcome a nondescript image as second-best alternatives to Japanese goods.

As a consequence, the two countries' exports still sell heavily on price, leaving them highly sensitive to exchange rate movements. In Korea's case, the problem is compounded by the fact that many of its exports are in sectors where Japan is the acknowledged quality and technology leader.

Similar doubts were, of course, expressed about Japan's prospects as recently as 15 years ago. However, there are important differences. Western manufacturers, which once provided soft targets for Japanese exporters, have grown tougher, as global competition has forced them to restructure, improve quality and innovate faster.

Protection has exacted a price by encouraging excess capacity and slowing industrial rationalisation

Japan also controls access to its most sensitive industrial know-how more strictly than did the western countries whose technology it borrowed freely early in its development. Even though Korea's Samsung recently developed the world's first 256MB D-Ram, it must still rely on Japanese equipment to make the devices in volume.

Faced with these obstacles, Korean and Taiwanese businessmen no longer talk as though emulating Japan's industrial ascendancy were just a matter of time. They increasingly accept that their economies can aspire to match its achievements only in selected areas.

Some Korean exporters are also placing less emphasis on the US and western Europe, after losing market share there. They aim instead to concentrate in the next few years on less demanding third world markets. Many are also eyeing keenly the potential of North Korea's market, in the belief that the two countries may soon be unified.

Longer term, the two tigers are pinning hopes to government-backed pushes in high-technology. Both countries are stepping up spending on research and development, investing in science parks and have ambitious plans to develop aerospace and biotechnology industries.

Their most valuable assets are skilled labour forces and sizeable pools of western-educated engineers and scientists, many of whom they are now seeking to entice back home from jobs abroad. "Engineers here are good but cost less than in Japan, so we can afford a bigger effort," says Mr Winston Wang, head of Nan-Yang Plastics, one of Taiwan's largest manufacturers.

The catch, however, is that other countries can play the same game. "China has 20 or 30 times more engineers than Korea or Taiwan, and they are even cheaper," says one western businessman.

Taiwan also wants to develop its service sector and attract foreign capital and technology by becoming a centre for the regional operations of multinational companies. But it faces daunting handicaps. As well as its diplomatic isolation and lack of direct links with China, Taiwan has poor infrastructure, countless barriers to foreign investment and opaque rules of business conduct.

Both tigers have surprised the world before by achieving apparently impossible feats. But while their efforts in the past have been geared to storming other countries' markets, the challenge today is increasingly to tackle structural weaknesses in their own.

Historically, the tigers' overriding priorities have been to replace imports with home-produced goods and promote export-led growth. They have targeted "strategic" industries and sheltered their home markets with extensive non-tariff barriers.

Such protection has exacted a price by encouraging excess capacity and slowing industrial rationalisation. Korea, which imported 1,300 cars last year, has four – possibly soon to be five – volume producers, while in Taiwan 11 car assemblers serve only 20m people.

Financial markets, meanwhile, have been constrained by tight exchange controls. Policies which directed credit to "strategic" sectors on preferential terms have turned many commercial banks into extensions of industrial policy.

In short, policies that have helped make the two countries champion exporters have insulated their economies from global market forces and stunted domestic demand. Lacking strong pressure from consumers at home to innovate and develop sophisticated marketing skills, their industries have followed, rather than led, international market trends.

Gradually, though, the old order is starting to crumble. In both countries, authoritarian military regimes were replaced by democratic governments in recent years. This has loosened governments' grip on industrial policy and encouraged lobbies to press for economic and financial reform.

The search for a bigger world role is also increasing pressures for change. Korea's impending application for membership of the Organisation for Economic Co-operation and Development, the club for the world's leading economies, will expose its restrictions on capital flows to critical scrutiny. Taiwan's bid to join the General Agreement on Tariffs and Trade as an industrialised economy this year will require it to adopt a more liberal trade policy.

But although both governments say they are committed to liberalisation, progress to date has proven halting and haphazard. The political drive from on high faces formidable obstruction from bureaucrats below, who fear deregulation will erode their power.

In Taiwan, democracy is also blamed for slowing reform efforts. "Democracy makes the economy more transparent and fair, but less efficient," says Mr Vincent Siew, chairman of the government's Council for Economic Planning. "In the days of martial law, we just did what was right for the country. It is much harder to push through decisions now."

Such interventionism has traditionally been even more pronounced in Korea, where the government seems even more reluctant to accept that genuine liberalisation would restrict its scope to intervene in the economy.

Ministers' continuing inclination to meddle is exemplified by their strenuous behind-the-scenes efforts to prevent Samsung from starting car production and Hyundai from competing in steel, on the grounds that they would undermine the profitability of existing producers.

"Ministers and officials think they have to plan liberalisation in every detail," says Dr Jwa of the Korea Development Institute, who acts as an adviser to the finance ministry. "They have no clear concept of what a free market means."

All the evidence suggests that entrenching market-based reforms in Korea and Taiwan will take time. Perhaps the biggest barrier of all is the self-confidence bred by the giant economic strides they have made in the past 30 years.

As Dr Young Soogil, an eminent Korean economist puts it: "We think we are changing very rapidly because we only compare ourselves to our own past. What people don't realise is that the rest of the world is changing just as quickly, and we are in danger of being left out."

Vision of an empty chair

The Millennium Commission has made a decision. The body entrusted with dispensing £1.6bn to mark the new era may be lamentably ill-equipped to explain how it plans to spot things millennialistic. What it can say is that the man picked less than two months ago as its chief executive - Nicholas Hinton from Save the Children Fund - is unsuitable for the job. And he was only meant to start today.

One can imagine what happened. The nine commissioners, a geographically representative but not especially eminent band of worthies, have been travelling the country together soliciting ideas - and bolstering their own sense of importance as the vastness of their financial power sinks in. Along comes Hinton, a man accustomed to throwing his weight around after nearly a decade building Save the Children. He threatens to have an opinion or two, so is sent packing as summarily as an unsuccessful supplicant for an Arts Council grant.

Back to the drawing board, then, with the advertisement for a boss who, first time around, was supposed to possess "presence, authority and ingenuity". Obviously a misprint for a kow-towing wallflower masquerading as a yes-man.

Meanwhile, the commissioners might care to consider that, while they understandably wish to wallow in the glory of picking the dozen or so really big projects, the bulk of the funds is destined for a multiplicity of rather less glamorous, but in the end much more significant, endeavours. When it is time to choose those, that may be the moment when the bigwigs regret letting Hinton go.

OBSERVER

Down and out

■ Calling all those with next June's G7 summit pencilled in to the diary. Book now to avoid disappointment.

The powers-that-be have just twigged that the picturesque but sleepy city of Halifax, Nova Scotia (population 300,000) cannot possibly accommodate those thousands of officials, journalists and assorted hangers-on who grace these lavish jamborees.

Having jettisoned the notion of using vacationing students' empty digs to house the overflow, members of the Canadian organising committee are now hastily calling up the big cruise lines. Any chance of piloting a luxury vessel or two from the Med or the Caribbean up into Halifax's - notoriously polluted - harbour?

Well, not much, actually. The reaction to date has been remarkably cool. Either the budget even for a G7 jolly will not stretch - or else the cruise operators can think of better ways to market themselves than filling their cabins with squabbling bureaucrats.

'She's making her own brand cola'

One step forward

■ Absent from the massed military forces guarding the return of Jean-Bertrand Aristide to Haiti's capital Port-au-Prince over the weekend were the fifty soldiers President Lech Walesa so readily promised Bill Clinton last month. But not for want of trying.

The first hurdle was a reluctant domestic cabinet, miffed at Walesa's freelance activities, and initially unwilling to produce funds for tropical uniforms and medical jabs. But the defence ministry has finally stumped up and the troops are kitted out and awaiting an American aircraft. Only trouble is, they have now mustered so much equipment that a single machine may be insufficient. The US State Department counters that it is "between financial years" and hence not in a position to fund additional transport.

Oh, the trials of a country on the long march to NATO membership.

Not at liberté?

■ Having endured months watching vast quantities of red ink haemorrhaging from the state-run French bank, staff at Crédit Lyonnais apparently reckon the worst is now over. That, at least is the promising-sounding finding of an internal opinion poll, assiduously leaked to a number of French newspapers last week. But then, just how believable is a survey in which it also emerges that 89 per cent of staff purport to be "very" or "fairly" satisfied with the level of interest in their jobs?

Rank outsiders

■ The rich are not like you and me – especially when they live in Switzerland. Nearly half of the country's 50 richest residents are not Swiss nationals, according to the latest rankings in Swiss business magazine Bilanz. Among the 25 Swiss franc multi-billionaires, all but seven are foreign, including Otto Beisheim of the German Metro retail group, Octav Botnar, the fugitive British car dealer, and Johann Rupert, of the Rothmans tobacco and Vendome luxury goods businesses.

Notably absent from this year's list, however, are the Brenninkmeijers behind the C&A clothing store chain. The reclusive family complained last year that, while its wealth might be considerable, and many members of the clan might live in Switzerland, no single family member possessed a particularly large chunk of the fortune. Bilanz still believes that the Brenninkmeijers are wealthier than the officially designated number ones, Vera Oeri-Hoffmann and Lukas Hoffmann, inheritors of the Hoffmann-La Roche drugs group, who weigh in at some SFr10bn each.

Sold short

■ No doubt the Italian stock exchange authorities, always eager to enhance the bourse's standing within the international financial community, thought long and hard before christening a new futures contract – based on the index of leading Italian shares – the FIB 30.

If the product takes off, trading on the Italian futures market can then be termed fibbing, with specialist Italian dealers affectionately known as fibbers.

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Revelations appear on eve of Queen's visit to Russia

Book on prince raises fears for UK monarchy

By James Blitz

Senior UK government ministers yesterday tried to quell public anxiety about the future of the British monarchy after newspaper publication of extracts from a controversial book about the private life of the Prince of Wales.

The book, written by Mr Jonathan Dimbleby, a well-known broadcaster, contains a detailed account of the difficulties of Prince Charles's marriage to Lady Diana Spencer.

The extracts appeared on the eve of Queen Elizabeth's state visit to Russia, the first by a reigning British monarch.

Mr Douglas Hurd, the foreign secretary, said recent revelations in books and newspapers about the royal family had led to the monarchy's detractors "getting everything out of proportion". He said: "I don't believe all this nonsense about a republic knocking on the door or the House of Windsor being besieged like the Romanovs."

Mr Jonathan Aitken, chief secretary to the Treasury, said the book posed no threat to the monarchy. "It is the monarchy, of which Prince Charles is ultimately the heir, which matters, not the flotsam and jetsam of journalism about personal feelings, however sincere they may be," he told Sky television.

Prince Charles said through his private office yesterday that he had no regrets about helping to write the book, and that it could be regarded as "a balanced and thoroughly researched appraisal" of his development as an individual and the way he has approached his role.

Quoting from the prince's diaries and letters, the book claims he had partly decided to marry Lady Diana under pressure from his father, Prince Philip.

Officials at Buckingham Palace admitted that the timing of the serialisation had been unfortunate. "In an ideal world it would have been preferable to defer publication," Mr Charles Anson, the Queen's press secretary, told royal reporters in Moscow. But he said that it would not "detract from . . . the most important state visit for ten years".

Interviewed on BBC radio, Mr Hurd, who will accompany the Queen to Moscow, attacked the determination of the British press to divulge intimate secrets of the royal family's lives.

He said: "I am worried about the way in which chattering people concerned with headlines and mass circulation do chip away at our institutions in this country, of which the monarchy is perhaps the most important and in a way the most vulnerable."

However, Mr Barry Sheerman, a spokesman for Labour, the main opposition party, said the book had merely compounded the debate about the future of the monarchy. "What the Prince of Wales has fallen into is the belief that by communicating more about the Royal family that will improve the situation," he said. "The reverse is true."

Crowning glory for the last of his line, Page 4

Merck tests money-back prostate drug offer

By Daniel Green

Merck, the biggest drugs company in the US, is offering satisfaction to users of its prostate drug Proscar, or a refund on the cost of the drug.

The drug is designed to treat the enlargement of the prostate gland, a condition commonly seen in men over the age of 50. The enlargement causes difficulty in urinating and can in extreme cases lead to kidney failure. Surgery is the treatment of last resort.

In the scheme it is testing, Merck will refund the $275-plus cost of a course of Proscar if the drug fails to improve the patient's condition after six months. Money will also be refunded if the patient needs surgery within two years.

The scheme has so far proved popular, having been taken up by 30 Veterans Administration hospitals and 11 health management organisations - companies which specialise in buying healthcare services from hospitals and doctors.

Merck will not reveal what the refund rate has been, but clinical trials have suggested that 80 per cent of men respond favourably to the drug. The improvement is usually apparent within two weeks of starting the course of treatment.

The company concedes, nevertheless, that Proscar, which was launched in 1992, had a difficult start, with sales growth slower than expected. It was a new approach to treating enlarged prostates "and doctors are conservative", Merck said.

Mr Vincent Lawson, managing director of the company's UK operation, Merck Sharp and Dohme, said the money-back promotion was "a real sharing of risk with real effects if promises are not kept".

He acknowledged that the prospect of money-back guarantees might be "terrifying" for some in the drugs industry.

Merck said it could be some time before a similar scheme was introduced outside the US. The US healthcare industry is largely privately owned and fragmented, with individual hospitals able to make commercial decisions.

The UK-based Glaxo, Europe's biggest drug company, said it was not using such techniques to sell its drugs.

Kim Jong-il poised to assume leadership of North Korea

By John Burton in Seoul

Mr Kim Jong-il's first public appearance yesterday in almost three months signalled that he will soon be named formally as North Korea's new leader.

Mr Kim attended a memorial ceremony in Pyongyang, marking the end of the 100-day mourning period for his father, the late president Kim Il-sung.

Analysts in Seoul believe the end of the mourning period will clear the way for Mr Kim, last seen in public at his father's funeral on July 20, to assume the presidency and head the ruling Korean Workers party in the next few weeks.

Mr Kim, who appeared somewhat haggard, was flanked by leading members of the ruling hierarchy in an apparent show of unity. The absence of Mr Kim from public view has led to speculation that his assumption of power may be encountering internal opposition.

One sign of continued stability has been North Korea's negotiations with the US over its nuclear programme, which have shown some signs of progress in the past week. But weekend discussions in Geneva remained stuck over North Korea's refusal to accept international inspection of undeclared nuclear facilities.

However, analysts believe Mr Kim is already firmly in control of the government and avoided formally taking power during the mourning period because it would appear unseemly.

"Since the death of Kim Il-sung, there has been no sign of a power struggle in North Korea, including a conflict with the military. Moreover, there are no rival candidates at present who can compete against Kim Jong-il," said Mr Hideshi Takesada, researcher at the National Institute for Defence Studies in Japan.

"Kim Jong-il has been consolidating family loyalty by recruiting relatives and classmates to major official positions," said Mr Kil Jeong-woo, director of policy studies at the Research Institute for National Unification in Seoul.

He also "seems to have secured absolute support from the major figures in charge of the three military organisations," which have been mentioned as the main source of possible opposition to his rule. Mr Kim may have used the mourning period, during which most public events have been suspended, to consolidate his power further by promoting more loyal officials.

The nuclear talks, begun by Kim Il-sung, have shown little sign of deviation since his death. "Policy making in North Korea is the product of team work among leading figures. Kim Il-sung's death did not have any drastic impact on security strategy," said a former East German diplomat in Pyongyang. However, Mr Kim may be forced to share more decision-making with the top leadership.

THE LEX COLUMN

Back to German basics

Any sighs of relief in German bond and equity markets at Chancellor Kohl's close run victory last night are likely to prove short-lived; the markets rose strongly last week in anticipation of a coalition victory and investors will soon be turning their attention back to fundamentals.

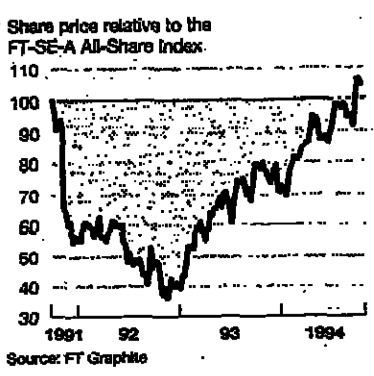
Here, nothing has changed. The German equity market is propped up by expectations of a near-doubling of corporate earnings this year and further substantial profits growth in 1995 and thereafter, but still looks expensive by historical standards. It is yielding 2.5 per cent for this year, which does not look attractive in comparison with yields of just under 7.5 per cent on German government bonds.

The outlook for bonds could have changed significantly for the worse had a high-spending, left-leaning coalition taken power. With Kohl re-elected, the government is likely to press ahead with further fiscal tightening but this alone will not persuade the Bundesbank to cut short-term interest rates further. Prudent fiscal policy, in any case, will be no easier to achieve, given the the coalition's thin majority in the Bundestag, and its weakened position in the upper house.

In the meantime, the focus will be on the usual factors which determine inflation over the mid-term: the rate of growth in the German economy, the money supply, and the outlook for next year's wage round. In all three cases the Bundesbank has plenty to worry about, despite the fall in headline inflation towards 2 per cent. It will will want to see, at the very least, September's data on money supply and industrial production before revising its position on interest rates.

British Steel

British Steel



Source: FT Graphite

Recovery in the steel industry is in full swing. One sign of this is British Steel's decision last week to commit nearly £100m to building a mini-mill in the US, its biggest investment in the past four years. The group has also successfully pushed through six successive price increases since the beginning of last year. Steel prices may still be significantly below the peak they reached in late 1989, but so great is the operational gearing within the trimmed-down industry that British Steel's profits over the next few years are likely to grow rapidly. Analysts calculate that pre-tax profits, which amounted to £80m in the year to March, may rise to more than £1bn by 1998. The dividend could quadruple over the same period.

In common with other cyclical stocks, the group's share price has risen well in advance of earnings, more than trebling since its low point in 1992. On previous form, it will also turn down again long before earnings reach their next peak. The question for investors is when to sell.

At present, the shares trade at about five times expected 1998 earnings. This is more expensive, relative to the market, than their peak rating during the last cycle. Arguably, the higher valuation would be in order if the European steel industry had sorted out its grievous problems. But the capacity cuts pledged by manufacturers may be shelved until the next downturn. This suggests that British Steel's shares are near the limits of their outperformance, even if the group is set to report buoyant profits for years to come.

US economy

The overwhelming impression from last week's range of US statistics is of an economy still expanding fairly strongly despite the good headline news on inflation. Industrial production was flat in September, but that followed a sharp gain in August. Capacity use dipped slightly but from a figure that had been revised upwards. At 84.6 per cent it displays little sign of slack. Last but not least, retail sales still look strong, with Friday's Michigan consumer sentiment survey showing improved confidence. None of that offers grounds for a reprieve from a further interest rate rise.

Indeed, the Federal Reserve may have to remain in tightening mode for some time, whatever happens over the next few weeks. Like the producer price data on Thursday, the retail price figures on Friday benefited from a sharp fall in energy prices. The difference was that the underlying rise, excluding food and energy, was slightly more muted than expected. But there is no guarantee that inflation will remain so easily contained, especially given the underlying upward pressure on producer prices for intermediate goods and raw materials.

To that problem has suddenly been added dollar weakness. The immediate cause of Friday's sharp fall was demand for D-marks ahead of yesterday's German election. But the slippage against the yen is also a reminder of how strongly underlying world capital flows work against the US currency. If dollar weakness spills over into Treasury bonds, the Fed may even have to contemplate a rate increase sooner rather than later.

Chemical industry

ICI's shares endured a torrid end to last week, falling nearly 3 per cent in two days. That was the culmination of an 8.6 per cent decline since the start of August. Its performance, and that of other European commodity chemicals stocks, is bizarre because of the global shortage of ethylene, the basic building block for plastics.

In the US, demand has been so strong that production problems at two plants have caused physical shortages. Spot ethylene prices, which at the start of the year were as low as 13 cents a pound, have recently reached 48 cents. Wall Street has taken this on board; chemicals have been the best performing sector in the US market over the last 12 months. Dow's shares have outperformed by 20 per cent, Geon's by 42 per cent, and Union Carbide's by 54 per cent. Prices may pause momentarily as capacity comes back on stream and a few new plants start up, but the market looks set to remain tight for at least two years.

For European chemicals companies any pause in US prices is an irrelevance because of the low volumes of American chemical exports. Strong demand has helped European ethylene prices climb 23 per cent in the last two quarters. Such price rises and volume growth should help generate a bumper third quarter. Yet apart from the Netherlands' DSM, European stocks heavily involved in petrochemicals have failed fully to emulate their US counterparts. BASF has outperformed the market by just 8 per cent in the last 12 months, ICI by only 13 per cent. It is time for a rerating of European commodity chemicals stocks.

Kohl claims victory

Continued from Page 1

vote, after failing to make the minimum necessary 5 per cent in 1990.

For the SPD, Mr Gerhard Schröder, prime minister of Lower Saxony and a member of the party's three-man election team, said the probable majority was "ridiculous". He said the result was a "catastrophic defeat" for the ruling coalition.

The far-right Republicans failed to make any impression on the election, with a final vote forecast at less than 2 per cent.

In the three state elections which took place yesterday, the SPD narrowly held its absolute majority in the Saarland, in west Germany, but failed to dent the lead of the CDU in the two east German states involved, Mecklenburg-Vorpommern and Thuringia. However the PDS will control the balance of power in both those states.

New York power takeover

Continued from Page 1

tax-exempt revenue bonds.

Yet if public ownership makes sense for Lilco, some argue, why not nationalise all the other private-sector utilities? Or for that matter, the rest of US industry?

Mr James McFadden, a utilities analyst at the securities house Bear Stearns, says: "The question is whether you want more utilities owned by the government sector or not. Most in this country would say you want smaller government, and this runs at cross-purposes with that."

On Friday Lilco said it was "seriously evaluating" the proposal; but its shares were trading only $1¼ up at $17⅝, far short of the $21.50 a share proposed by New York State. At that price, the market is betting either that the Federal government will intervene to block the bid – or that Mr Cuomo will not be re-elected to pursue it.

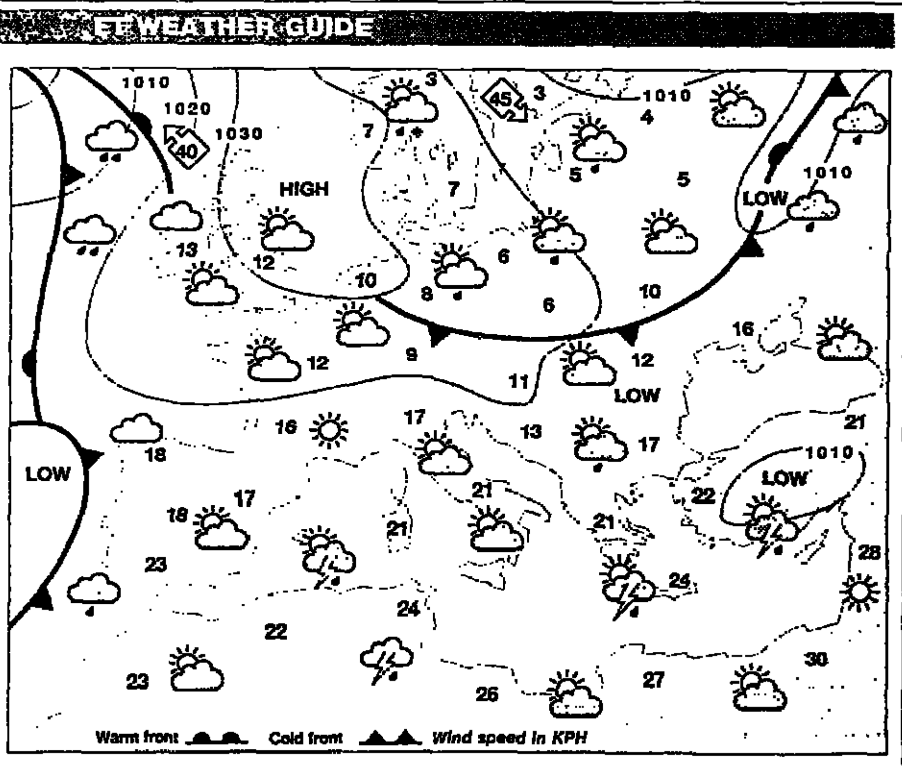
FT WEATHER GUIDE

Europe today

A north-westerly current between an area of strong high pressure over Scotland and low pressure over northern Scandinavia will draw rather cold air over northern and eastern Europe. Numerous snow showers will occur along the Atlantic seaboard of Norway. Further inland, Sweden and Finland will have less cloud. England, the Low Countries, France and Germany will also be mainly dry with sunny periods. Western parts of the Mediterranean will be changeable with heavy showers at times. Greece and Turkey will have a few showers, some of them with thunder. Meanwhile, Italy will have relatively tranquil conditions with sunny spells and only isolated showers in the south.

Five-day forecast

Central and western Europe will start the week calm and sunny with night-time frost and unseasonably low temperatures during the day as high pressure moves into the continent. Northern Europe will have another wintry spell with snow showers near coasts and frost inland. During the second half of the week, most of Europe will change very rapidly to wind and rain, as a series of low pressure areas arrives from the Atlantic.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	35
Accra	shower	31
Algiers	rain	22
Amsterdam	fair	11
Athens	shower	23
Atlanta	sun	24
B. Aires	fair	16
B.ham	fair	12
Bangkok	shower	33
Barcelona	shower	21
Beijing	sun	17
Belfast	cloudy	12
Belgrade	fair	10
Berlin	shower	7
Bermuda	shower	26
Bogota	thund	19
Bombay	fair	33
Brussels	fair	10
Budapest	fair	13
C.hagen	fair	8
Cairo	sun	30
Cape Town	cloudy	21
Caracas	fair	31
Cardiff	fair	13
Casablanca	fair	22
Chicago	sun	19
Cologne	sun	10
Dakar	sun	30
Dallas	thund	26
Delhi	sun	30
Dubai	sun	35
Dublin	fair	13
Dubrovnik	shower	19
Edinburgh	fair	11
Faro	cloudy	22
Frankfurt	fair	10
Geneva	fair	13
Gibraltar	fair	22
Glasgow	fair	12
Hamburg	fair	8
Helsinki	fair	4
Hong Kong	fair	30
Honolulu	fair	32
Istanbul	shower	20
Jakarta	fair	33
Jersey	fair	12
Karachi	sun	35
Kuwait	cloudy	36
L. Angeles	fair	23
Las Palmas	fair	26
Lima	cloudy	21
Lisbon	cloudy	20
London	fair	13
Lux.bourg	fair	9
Lyon	sun	15
Madeira	fair	24
Madrid	fair	19
Majorca	shower	22
Malta	shower	24
Manchester	fair	12
Manila	thund	31
Melbourne	fair	23
Mexico City	cloudy	22
Miami	fair	27
Milan	sun	18
Montreal	sun	13
Moscow	fair	3
Munich	fair	8
Nairobi	fair	27
Naples	fair	22
Nassau	fair	28
New York	sun	17
Nice	sun	20
Nicosia	shower	24
Oslo	fair	8
Paris	fair	11
Perth	fair	27
Prague	shower	5
Rangoon	shower	32
Reykjavik	rain	7
Rio	shower	26
Rome	sun	22
S. Frsco	fair	19
Seoul	fair	18
Singapore	thund	33
Stockholm	fair	6
Strasbourg	fair	11
Sydney	sun	25
Tangier	fair	21
Tel Aviv	shower	27
Tokyo	cloudy	21
Toronto	sun	16
Vancouver	fair	14
Venice	fair	18
Vienna	fair	11
Warsaw	fair	5
Washington	sun	19
Wellington	cloudy	12
Winnipeg	rain	13
Zurich	fair	9

FINANCIAL TIMES

COMPANIES & MARKETS

Monday October 17 1994

MARKETS THIS WEEK

BRONWEN MADDOX:
GLOBAL INVESTOR
Globalisation is a word heard these days from only a handful of industries. Once the height of fashion, used to justify the acquisitive tendencies of companies right across the stock market, it fell from popularity when many of those deals proved disappointing. **Page 24**

PETER NORMAN:
ECONOMIC NOTEBOOK
The recent wild gyrations of the rouble may be a world away from the day to day preoccupations of foreign exchange markets. But they have been a reminder that currencies can be very volatile and have the capacity to spring surprises. **Page 24**

BONDS:
The return last week of Argentina to the syndicated loan market marks a significant stage in Latin America's financial rehabilitation. Argentina secured a $500m 18-month credit with a spread of 150 basis points above Libor on Tuesday. **Page 26**

EQUITIES:
London – the UK stock market looks a more confident place and the final quarter of the year offers promising prospects. New York – analysts say stocks may have difficulty making much headway this week, even though the third-quarter reporting season is in full swing. **Page 25**

EMERGING MARKETS:
Taiwan wants to use its economic might to become a regional financial centre. However having a stock market that is highly restrictive to foreign investment, poses a formidable obstacle to such ambitions. **Page 25**

CURRENCIES:
Foreign exchanges will start their week digesting political events. The point of departure will be the outcome of yesterday's national poll in Germany. **Page 25**

COMMODITIES:
Leaders of the world's lead and zinc industries, who have been meeting in Vienna over the weekend, today begin the 39th full session of the International Lead and Zinc Study Group. **Page 24**

UK COMPANIES:
Morris Mechanical Handling, the UK cranes, hoists and warehouse systems producer, has been taken over, just four months after it was sold in a management buy-out. **Page 22**

INTERNATIONAL COMPANIES:
Beta Funds, a London-based company, is planning to launch a $50m (£31m) investment fund for Cuba and has created the first investment management company to be represented on the island. **Page 23**

STATISTICS

Hammerson clinches Australian deal

By Peggy Hollinger

Hammerson, the UK property group, yesterday clinched the sale of its Australian property interests for £251m ($396m) in cash, after a heated bidding race between five companies helped to push the price to a 40 per cent premium on recent valuations.

The UK company, with an international portfolio valued at about £1.7bn, is now expected to launch an aggressive acquisition programme in continental Europe, particularly France.

Hammerson has conditionally agreed to sell six office buildings and one shopping centre to Australian Mutual Provident Society. The properties were revalued last year at £178.3m, down from £211m in 1992.

Mr Ron Spinney, who led a wide-ranging reorganisation since arriving as chief executive last year, said bidding had been fierce for the Australian properties, which include one of the largest regional shopping centres in Australia.

"There has been a considerable improvement in conditions in Australia over the last six months," he said.

The properties last year contributed income of A$27m. Mr Spinney said that Hammerson decided to sell when it became apparent they would require further investment.

Hammerson intends to use the proceeds over the next 15 months to increase its exposure to retail developments. The company will also seek to bolster its portfolios in the UK and continental Europe.

Hammerson is in advanced talks on potential property deals in France. Mr Spinney said that the group would seek opportunities in Germany in due course. Both countries were "if not at the bottom of the economic cycle, close to it".

Yesterday's deal was expected to enhance Hammerson's earnings per share. Even leaving the cash on deposit would add 1.9p to earnings, Mr Spinney said. The company's gearing – debt as a percentage of shareholders' funds – would initially fall from 63 per cent to 36 per cent as a result of the deal.

Last year the group raised £199m through a seven-for-15 rights issue at 285p to bolster a weak balance sheet.

Mr Spinney said just two significant properties remained to be sold. These were North American office blocks valued at more than $100m.

Chemical Banking chairman Walter Shipley explains why asset quality is paramount

Rationalise and keep risks to a minimum

For a man of 6ft 8in (2.05 metres), Mr Walter Shipley does not impose himself, being quiet, courteous and unassuming. His bank also has a low profile for its size. With $166bn of assets, Chemical Banking is the fourth largest bank holding company in the US, but is still known primarily for the two banks that formed it.

Yet 2½ years after the merger of Manufacturers Hanover and Chemical Bank – two ailing money centre banks whose headquarters faced each other across Park Avenue – it has started to gain a reputation as more than a product of a marriage forced by mutual weakness in hard times.

Mr Shipley also appears to be enjoying his new-found prominence since taking over as chairman and chief executive this year on the retirement of Mr John McGillicuddy. Mr Shipley, the former chairman of Chemical Bank, agreed to serve under Mr McGillicuddy as part of the merger.

His statement, in a recent interview with the Financial Times that he was prepared for Chemical to lose its dominance of the US syndicated loan market rather than accept loose terms and conditions on loans, was part of a determination not to squander Chemical Banking's new-found strength.

The most obvious symbol of that is the restoration of its tier one ratio of core capital to risk-weighted assets to more than double the 4 per cent Basle accord minimum. This contributed to Moody's, the credit rating agency, raising its long-term rating to A2 from A3 this April.

Mr Shipley is most impassioned when talking of how crucial it is for the bank to maintain and improve its rating. Companies are now willing to accept it as a partner in long-term contracts such as interest rate swaps. "There is no single thing I can do that is more important than being the champion of asset quality. Everything else we do can be overwhelmed by poor assets," he says.

Mr Shipley says, moreover, that day-to-day management is affected by whether the bank is perceived as strong or weak. "We went through a period where we were on the defensive, and external events determined our daily and strategic thinking. We have emerged into a period where we can switch to the offensive and chart a course and keep to it. The one thing I can impart to my successors is the power of that."

'We can switch to the offensive and chart a course and keep to it'

Getting bigger without taking true account of the risks lay behind the problems of both Chemical and Manufacturers Hanover. The banks were in turn assailed by the less-developed-country debt crisis and real estate lending problems in the US, and had to sell assets to restore capital.

So perhaps it is unsurprising that Mr Shipley does not see the new Chemical – as it is known internally – reasserting itself through aggressive growth. Indeed, his determination to curb risk in syndicated lending could threaten its position in one of the few markets it truly dominates.

He sees "chapter two" of the merger as being primarily devoted to cost-cutting rather than generation of more income. This is particularly so in its retail and mid-market operations in New York, New Jersey and Connecticut, and in Texas through its Texas Commerce Bank.

Like other US banks faced with the prospect of narrowing net interest margins, Chemical has embarked on rationalisation. Mr Shipley points out that its reduction from 430 branches to 280 in the New York area has left it with deposits of $85m per branch, compared with an industry average of $30m. "We have been kept busy getting the merger done, but chapter two is a tough view, business by business," he says. "It is rationalise, rationalise, rationalise. Traditional ways of banking are becoming more and more obsolete as technology brings new ways to deliver products."

Mr Shipley professes no great appetite for taking part in the current phase of consolidation of US banking in which small banks are being bought to fill in the networks of larger regional banks. Smaller banks are now commanding prices of about 2½ times book value.

Chemical has concentrated instead on building its product range in retail banking. This means a stronger focus on credit cards, and the $330m acquisition in May of Margaretten Financial, a New Jersey-based residential mortgage lender.

Mr Shipley is also cautious about diversifying in corporate banking. Although it is natural for the bank to use its powers in debt securities underwriting as an extension of its strength in loan syndication, he says it will take a long time to build strength in equity origination.

"The jury is out on the extent to which commercial banks can truly become a major factor on their own in equities," he says. He cites the efforts of J.P. Morgan. "Morgan has a clear head start on everyone else, but they too have got a long, long way to go," he says. He sees Chemical's task in the medium term as a less clear-cut one than Morgan's attempt to bridge the divide of the Glass-Steagall Act separating commercial and investment banking in the US. "By definition, we do not have a singular reputation because we have a diverse base," he says.

Instead, Mr Shipley wants to push through operating improvements, shifting capital into its highest return areas, and gradually trying to push its return on equity up from last year's 16.6 per cent during a good trading year to a 16 per cent minimum in bad years for financial markets.

This is not a particularly glamorous mission, but Mr Shipley believes it is the only choice without taking excessive risk. In the long term, he does not rule out a merger with another large bank. But the medium term promises a continuing struggle to reinforce Chemical's new name.

John Gapper

Business group seeks $2m amends

By Peggy Hollinger

British businesses which paid a total of $2m in retainers to a US company in the hope of raising finance which they say never materialised have joined forces to press the US and UK authorities for compensation.

The issue will put further pressure on Britain to increase regulation of off-shore havens.

The FBI has intensified its 18-month investigation of the US company, Bond Street Commercial. Law enforcement officers estimate up to $100m has been taken in "retainers" by the company world-wide, or those connected with it, in return for help in raising finance.

Almost 20 UK companies have formed the Turnberry/Bond Street Pressure Group to highlight their plight.

The companies each paid retainers of between $30,000 and $230,000 to Miami-based Bond Street Commercial, previously known as Turnberry Underwriters. In return, they were promised help to raise almost $100m, in the form of collateral to secure bank loans.

In many cases, the loan was to have been repaid by a flotation arranged through a company run by the former president of Turnberry, Mr Les Mersky.

Yet no company could meet the terms of the Bond Street contract in the time allowed. Several companies even paid further retainers for extensions but still could not complete.

The arrangement appears to have broken down during bank to bank discussions. In one case, Turnberry's bank was discovered to be an offshore private institution, the Guardian Bank and Trust (Cayman) Ltd.

Mr Gwyn Davies, of Cardiff-based solicitors Edward Lewis Bevan Ashford representing the group, said they wanted "to draw attention to the authorities' failure to regulate Turnberry/Bond Street in the UK, US and Caymans."

Turnberry and the Guardian Bank were the focus of an article in the Financial Times last year. Other UK companies have been put in touch with Bond Street through national newspaper advertisements.

The ads are often placed by US and UK agents. One such agent, based in New York and trading under the name EFG or EF Gibson, was involved in most of the pressure group cases.

This week: Company news

EUROTUNNEL

Departure delays leave investors counting the cost

Eurotunnel's often strained relations with its shareholders took another knock last week when an ill-judged comment from its finance director, that revenue targets from the Channel tunnel would not be met, jangled investors' nerves.

Coming just ahead of the company's announcement today of its first-half results, the news of the missed targets left Eurotunnel's shares down 20p on the week at 228p.

That Eurotunnel was likely to miss its forecast of £137m ($216m) revenues in 1994 has been obvious for some time as a result of delays in the launch of its freight and passenger services.

But the casual way in which the company appeared to acknowledge this did little for its image.

Eurotunnel says it is still within the financing limit agreed with banks in May at its £858m rights issue, but analysts are not so sure. The delayed start may have lopped £30m to £50m off revenues while the poor performance of its shares makes it unlikely owners will want to exercise their 300p warrants.

Eurotunnel calculated in May that it had £419m for contingencies. But if the income from the exercise of warrants and the effect of a leasing deal are taken out then the margin was only £34m.

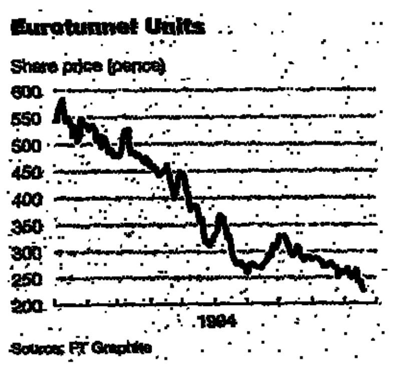
The delayed start could put Eurotunnel in breach of its banking covenants though it is unlikely the banks would force the issue.

Having come this far with the £10bn project they have no desire to bring it down.

But this indicates that the company may have to make a third cash call next year on its bankers and shareholders.

The picture is not entirely gloomy, however. The fares discounting between the ferries has eased in recent months while the sinking of the ferry Estonia has put into perspective fears voiced about the safety of the tunnel.

Eurotunnel Units



Source: FT Graphite

INT'L BUSINESS MACHINES

Engineering a success story

International Business Machines will report third-quarter results Thursday. The world's biggest computer company is in the midst of a broad "re-engineering" effort to boost profitability. Wall Street analysts forecast third-quarter earnings of about 90 cents per share, compared with losses of 12 cents per share.

Mr Lou Gerstner, IBM chairman, said last week that the company is making progress. "Unfortunately we have an uneconomic cost structure but we are well into fixing the problem." In Europe, IBM is ahead of schedule in reaching competitive cost targets.

Stronger-than-expected sales of mainframe computers have boosted IBM's profitability in the last two quarters and analysts will be watching to see whether that trend is continuing. Sales of IBM's new Aptiva home computers, introduced last month, should help to boost the performance of IBM's PC division, which has suffered market share losses this year in the face of fierce competition from Compaq Computer.

IBM will introduce new desktop and portable personal computers on Monday. The desktop models, aimed at corporate PC users, are expected to be loaded with IBM's recently announced "Warp" software, which competes with Microsoft's Windows. The company will also launch new versions of its popular "Thinkpad" notebook computers.

OTHER COMPANIES

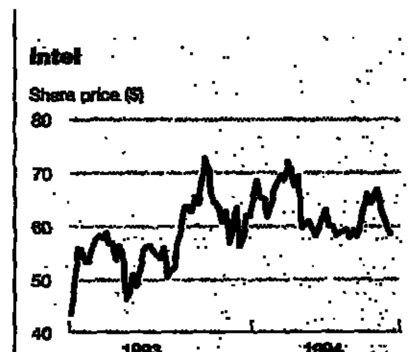
Intel on course for 3Q earnings rise

■ Intel: The world's largest computer chip maker will report its third-quarter results after the close of trading in New York today. Analysts are forecasting earnings of about $1.51 per share, compared with $1.33 in the same period last year. Intel has just begun an $80m advertising campaign to boost sales of PCs containing Pentium, its highest performance microprocessor, during the busy Christmas selling season. The company continues to battle imitators in the microprocessor market. Last week, Intel sought a temporary restraining order to force Advanced Micro Devices to halt sales of microprocessor clones.

■ Credito Italiano: The recently privatised Italian bank launches an issue of new shares and bonds today to raise up to L1,520bn ($965m) for future acquisitions. The discounted share issue is priced at L1,500 a share, against a current market price of about L1,970. The exercise of warrants attached to both bonds and shares could raise a further L1,120bn by the end of 1997.

■ SmithKline Beecham: Third-quarter figures from the Anglo-US drug company, to be announced tomorrow, will be scanned for clues to progress in integrating DPS, the drug distributor it bought for $2.3bn in May. It will also be the first full quarter to show the effects of the expiry of the patent on Tagamet, the ulcer drug, once SmithKline's best selling product. The nine-month pre-tax profit figure should nevertheless be well above £900m, ($1.42bn) compared with £841m a year earlier.

Intel



Source: FT Graphite

■ Smiths Industries: Full-year pre-tax profits are expected to advance 9 per cent to about £114.5m when the UK aerospace and medical products group reports on Wednesday. The dividend is likely to be lifted in line with forecast earnings growth of 8 per cent.

■ Amstrad: The consumer electronics group is expected to report full-year pre-tax losses of up to £5m on Thursday, hampered by the problems of the personal computer industry and tough competition in consumer electronics sales.

■ Highland Distilleries, maker of Famous Grouse, the second largest Scotch whisky brand in the UK, is expected today to report full-year pre-tax profits of about £42m ($38.8m).

Companies in this issue

Tie-up has come sooner than expected after management buy-out

MMH acquired for $25m

By Andrew Baxter

Morris Mechanical Handling, the Leicestershire cranes, hoists and warehouse systems producer, has been taken over, just four months after Trafalgar House, the engineering and construction group, sold it in a management buy-out.

Harnischfeger Industries, based in Milwaukee, Wisconsin, has bought Morris, formerly Davy Morris, for about $25m (£15.8m). The combination of Morris and P+H, Harnischfeger's materials handling arm, will create a new world force in the industry.

The old Davy Morris had been only a very small part of Trafalgar House, acquired in the 1991 takeover of stricken process plant contractor Davy Corporation. Its purchase in June by management, for undisclosed terms, was the prelude to a search for link-ups in materials handling, aimed at establishing Morris as a world player in the industry.

In the event, a tie-up has come much quicker than expected. The alliance combines P+H's strengths in the US market with Morris's strong customer base in the rest of the world. It will have annual turnover of £150m and 1500 employees at manufacturing centres in the US, UK, South Africa and Mexico.

Morris has about 750 employees, two thirds of whom are based at Loughborough, and annual sales of about £60m. It is expected to report pre-tax profits of £3.2m for the year ended September 30.

The Leicestershire company has one of the industry's broadest product ranges, making everything from huge ship-to-shore cranes to hand-operated pull-hoists. Engineered products account for two thirds of turnover, with standard or mass-produced products making up the rest.

Mr Mike Maddock and Mr Bruce Norridge, managing directors of the two product sectors, said Morris and P+H had a complementary range of cranes, hoists and controls and associated services; the new combined operation would be extended by Morris's range of engineered cranes and automated warehousing equipment.

The deal was carried out through the purchase by Harnischfeger of MMH (Holdings). It is part of the US company's strategy to transform its materials handling group into a core business with the technological knowhow, global presence and after-market potential to generate significant profits.

DTI will ignore RJB chief's 'bonus'

By Peggy Hollinger

The Department of Trade and Industry is not expected to pursue reports of controversial payments made to Mr Richard Budge, chief executive of RJB Mining, which last week became the government's preferred bidder for British Coal's English mining assets.

Mr Budge was cited in a report by receivers to AF Budge, the family business which collapsed in 1992, for receiving payments without evidence of proper boardroom approval.

Mr Budge, who says the payments were a performance bonus, has since repaid £325,000 to the receiver without admitting liability.

Meanwhile, it emerged that one of the bids for British Coal's assets included a clause to give members of the Union of Democratic Mineworkers up to 20 per cent of the company.

A consortium of the UDM and Coal Investments, led by Mr Malcolm Edwards, the former British Coal commercial director, is believed to have offered £510m for two of the central England regions.

This figure included a £35m payment to the government for the issue of a 15 per cent stake to the mineworkers. A further 5 per cent would be set aside for mineworkers to buy through an employee share ownership plan.

The consortium is believed to have provided a further substantial amount to extend indefinitely the generous redundancy terms which the government has said must be provided until March 1998.

Faber Prest pays £3m for Debrian

Faber Prest, the industrial and distribution services group, has acquired Debrian (Holdings) and R&M Shorthouse, its wholly owned operating subsidiary, for about £3m.

R&M Shorthouse is a West Midlands-based operator of a dedicated specialist fleet of vehicles under contract to the steel distribution industry. In the year to May 31 1994 its pre-tax profits were £413,000 on sales of £3.11m.

Net assets at that date were £1m, including net debt of £20,000.

The consideration for the acquisition will be satisfied as to £1.54m in cash, £841,500 in loan notes and the balance in ordinary shares.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Sappi (S Africa)	S D Warren (US)	Paper	£1.01bn	SA's rehabilitation continues
Viag (Germany)	Units of Elf Sanofi (France)	Food processing	£525m	Part of disposal programme
Kone (Finland)	Montgomery Elevators (US)	Lifts	£177m	Doubling N Am market share
Ulster Bank (UK)	TSB Bank (Ireland)	Banking	£119m	NatWest arm raises bid
Vodafone (UK)	Societe Francaise Telephone (France)	Mobile telecoms	£105m	Stake part of wider alliance
Amersham Intl (UK)	Nihon Medi+Physics (Japan)	Healthcare	£55m	Stake reinforces global ambitions
Campbell Soup (US)	Units of Albert Fisher (UK)	Food packaging	£37.1m	More Fisher disposals
Cimpor (Portugal)	Cimentos de Mocambique (Mozambique)	Cement	£12.7m	Cimpor continues internationalisation
Pilkington (UK)	Lahden Lasitehdas (Finland)	Glass	£9m	Buying out minority holders
BAT Industries (UK)	Java (Russia)	Tobacco	n/a	$70m investment planned

Hil raises funds for German plant

By Chris Tighe

Hil Technologies, a designer of electrically powered commercial vehicles, is offering 25m £1 shares at par to raise funds to build a manufacturing and assembly plant on a former Russian military base near Eisenach, Germany.

The unquoted company hopes to raise £18m in the UK and Hong Kong. It needs a minimum of £15m to trigger an offer of £45m towards the project from Treuhand, the privatisation agency operating in former East Germany.

The company grew out of Hil Electric, which raised £500,000 under the business expansion scheme to fund the design of electrically powered commercial vans. Hil believes there is a potential volume market for environmentally friendly commercial vehicles.

Its aim is to begin construction of the plant in early 1995. The first phase of the plant, which would be operated by a subsidiary, Hil Automobilwerk Eisenach, would be an assembly facility producing 45,000 units by 1998. Hil hopes customers will include large fleet vehicle owners attracted on commercial grounds as well as ecologically minded companies and institutions.

Hil's prospectus has been sent to 2,500 institutions and individual ethical investors. Closing date is November 30.

Net asset value rises at Value and Income

Fully diluted net asset value per share of Value and Income Trust was 106.6p at September 30, up from 101.1p a year earlier.

Net revenue for the half year was up 28 per cent, from £664,000 to £852,000.

Earnings per share rose to 1.98p (1.56p) and the interim dividend is lifted from 2p to 2.1p.

The directors intend to recommend a final of 2.1p.

Parity pays £8.3m for ACT's systems business

ACT, the Birmingham-based computer services group, has taken a further step in its transformation into a financial software products company with the sale for £8.3m of its systems integration and training interests.

The buyer is Parity, formerly Comac, an information technology staff agency and services group headed by Mr Philip Swinstead. The acquisitions, ACT Business Systems, ACT Business Systems (Ireland) and BIS Training, will help Parity achieve its objective of becoming a broadly based computing services company.

The total cost includes the repayment of £3.8m of intra-group debt. Some £6.3m will be payable on completion and the remainder on the second anniversary of completion. The consideration will be met through a placing and open offer, fully underwritten by Samuel Montagu, to raise a net £5.7m, The balance will be met from Parity's existing resources.

ACT, which took over the BIS Group last year, has been selling off non-core activities as it concentrates on software products for the financial sector. The company is likely to have annualised revenues of about £170m; last year it achieved pre-tax profits of £28.5m.

Market worries over the cost of restructuring and product development have hit the share price, however, which closed yesterday at just over 100p. Parity intends to create an new division, Parity Systems, to complement its existing consultancy, training and agency operations. With the acquisitions, annualised turnover is likely to reach about £120m.

Mr Swinstead said: "In 12 months our small agency company has been transformed into a significant IT services business."

Parity Systems will be managed by Mr Keith Jennings, recruited from Easams, part of GEC. The marketing director will be Mr George Waddington.

Scholey retires from BT board

By Alan Cane

Sir David Scholey, who steps down as chairman of SG Warburg next year, has retired as a non-executive director of British Telecommunications.

Sir David, 59, joined the board of BT in 1985 and is leaving on the completion of his third term of office.

Sir Iain Vallance, BT chairman, paid warm tribute to Sir David's work for the company during the most tempestuous period in its existence.

Sir David said he was leaving when BT was "acknowledged as a global market leader within the telecommunications industry".

Aberdeen Steak losses at £137,000

Aberdeen Steak Houses Group, the restaurant operator, reduced pre-tax losses for the six months to June 30 from £197,000 to £137,000.

After a good start to the year, a combination of hot weather, the World Cup and the beginning of the rail strikes in May and June reduced turnover and profitability to below expected levels, directors stated.

Turnover edged ahead from £6.16m to £6.76m.

As turnover is traditionally seasonal, the company said it was "hopeful" of the year-end outcome.

Losses per share came out at 1.2p (1.8p).

Swedish buy for Bodycote

Bodycote International, the metal technology, packaging and textiles company, and Asea Brown Boveri, the Swedish electrical engineering company, have agreed terms whereby Bodycote will buy 80 per cent of the shares of ABB's wholly owned subsidiary ABB Powdermet. The SKr42m (£3.55m) consideration will be satisfied in cash.

Powdermet's total valuation is SKr52.5m and it has net assets of about SKr40m. Its turnover for 1993 was SKr67m. Bodycote will manage the company, which will be renamed Powdermet Sweden, and ABB will hold the remaining 20 per cent.

NEWS IN BRIEF

DARTMOOR Investment Trust has received acceptances in respect of 55.3m shares in Sphere Investment Trust (45.6 per cent). Taken with its current holding of 8.5m shares (7.01 per cent), this brings total acceptances to 63.8m (52.58 per cent).

GLENCAR EXPLORATIONS: 74 per cent of the shares offered under the recent 1-for-10 open offer have been subscribed. The remaining 662,213 shares have been placed. The Dublin-based company is to begin intensive drilling and evaluation in Wassa, Ghana, immediately.

NOBO GROUP: the open offer of 4.9m ordinary shares at 225p each has resulted in firm placings of 1.72m shares by the directors and their family trusts. Of the remainder, 1.44m applications were received from qualifying shareholders.

WYEVALE GARDEN Centres has acquired the freehold of Peter Barratt's Garden Centre in Washington, Tyne and Wear, for £825,000 plus stock at valuation. The purchase brings the the number of garden centres operated by Wyevale to 44. The Barratt partnership owns two other centres.

VERSON INTERNATIONAL Group has refocused its loss-making press business, Clearing International, on refurbishment, press enhancement, spares and service. At the same time it has reducing staffing and overheads.

Discounting hits Japanese stores

By Emiko Terazono in Tokyo

Earnings growth at Japan's leading retailers for the first six months of the fiscal year to August was moderate, in spite of the income tax cut in June and a hot summer which spurred sales of items such as summer clothing and air conditioners.

The big supermarkets and department stores continued to be adversely effected by the "discount boom", as Japanese consumers shunned expensive brand name products. The leading supermarkets expect further price competition in the second half.

Sales per customer at the leading supermarkets fell by between 4 and 7 per cent from a year earlier. Seiyu said that its price index for August declined by 6.2 per cent from the same month last year.

Even Daiei, which saw a sharp sales increase thanks to the merger of three supermarket chains in March, said that its low price campaigns boosted the number of shoppers by 11 per cent, but average sales per customer fell by 6 per cent.

Daiei said that an extension of business hours, aimed at supporting sales, pushed up personnel expenses and other sales management costs by 44.9 per cent.

The company will continue its low-pricing strategy in the second half to the fiscal year to February and expects sales to rise by 23.5 per cent to Y2,560bn ($26bn) and pre-tax profits to increase by 4.4 per cent to Y23bn.

Ito-Yokado said that brisk summer sales due to the hot weather and longer business hours helped sluggish revenue during the previous few months. It blamed its meagre pre-tax profit increase on a 4 per cent fall in sales per customer and a decline in interest income.

For the full year to February, the company expects sales to rise by 1.9 per cent to Y1,565bn and pre-tax profits by 5.5 per cent to Y86.5bn.

Jusco's pre-tax profits fell partly because of a rise in depreciation costs stemming from restructuring and the relocation of its headquarters.

For the 12 months to February, the company expects a 2 per cent rise in pre-tax profits to Y26.5bn on a 10.3 per cent rise in sales to Y1,170bn.

Profits at Seiyu plunged due to cost increases from the launch of new stores. For the full year Seiyu expects a 4 per cent fall in profits to Y7.5bn while sales are projected to remain flat at Y1,048bn.

Mitsukoshi, a leading department store with business links with Harrod's, returned to the black thanks to cost cutting.

However, the company will continue to see the effects of lower pricing on its full year sales, and it is forecasting full year pre-tax profits of Y2.5bn on a 4 per cent decline in sales to Y768bn.

Convenience stores, which have carved out a niche in the retailing market, posted firm sales and profits.

However, the sector, which has been posting double-digit earnings growth in recent years, has also been hit by discounting, and increasing competition is likely to slow future earnings.

Sales at Seven-Eleven Japan for the full year are forecast to rise by 8.3 per cent to Y212bn and pre-tax profits are expected to increase by 5.5 per cent to Y93bn.

Japanese retailers: 6 months to Aug 31 1994

	Sales (Ybn)	Change on year (%)	Pre-tax profit (Ybn)	Change on year (%)
Daiei	1,264.7	+25.0	11.2	+6.7
Ito-Yokado	759.3	+1.1	42.0	+0.8
Jusco	545.8	+9.3	10.2	-12.9
Seiyu	520.5	-1.7	3.1	-58.9
Seven-Eleven	108.4	+9.9	49.8	+7.8
FamilyMart	245.8	+10.5	9.4	+17.0
Mitsukoshi	379.9	-4.7	0.6	-

Source: Company reports

Record interim profits at Kvaerner

By Karen Fossli in Oslo

Kvaerner, Norway's second largest listed company, reported far better than expected eight-month results shortly after sounding a warning of substantial losses by the oil and gas division, which will weaken overall group performance for the full year.

The group achieved record interim pre-tax profits of NKr1.02bn ($154m), up 41 per cent on last year's NKr720m, with four of Kvaerner's five business sectors showing sharp improvements, particularly shipbuilding.

The eight-month result includes NKr190m in unrealised exchange gains, against NKr180m in unrealised losses last year, related to long-term financing of the group's shipping fleet.

The advance came in spite of a pre-tax loss of NKr202m by the oil and gas division, reflecting cost over-runs on the North Sea Troll oil concrete floating platform construction project and provisions for future restructuring. Last year's comparative figure was a profit of NKr266m.

Group sales rose 5 per cent to NKr16.73bn but operating profit slipped 8 per cent to NKr675m due to increases in operating costs and depreciation.

Shipbuilding boosted operating profit by NKr251m to NKr830m as sales shot up by NKr2.01bn to NKr7.06bn. Pre-tax profit rose by NKr254m to NKr851m.

Mechanical engineering posted an operating profit of NKr49m, against a loss of NKr76m, despite a NKr138m dip in sales to NKr3.22bn.

Pulping saw operating profit slip by NKr15m to NKr73m, but pre-tax profit rose by NKr66m to NKr166m. Sales plunged by NKr855m to NKr1.23bn.

Shipping posted an operating profit of NKr64m, against a loss of NKr40m, and returned a pre-tax profit of NKr188m compared with a loss of NKr142m as revenues rose by NKr116m to NKr833m.

Milan bourse sets date for launch of futures contract

By Andrew Hill in Milan

The Milan stock exchange intends to launch its long-awaited futures contract, based on the new MIB 30 index of leading Italian shares, on November 28.

On the same day, the exchange will extend the close of share trading from 4pm to 5pm, and end the distinction between shares which can be traded only in the afternoon session and larger stocks which can be bought and sold throughout the day.

Mr Ettore Fumagalli, a member of the exchange council, confirmed the launch date on Friday, although he added that it could be postponed until December 2, if necessary.

"I think we will have a flat phase at the beginning [of futures trading], with a limited number of contracts traded, but then I think we will have a real take-off," he told journalists.

The Milan stock exchange has been working hard to compete with other European exchanges, and to attract Italy's small investors, who have traditionally preferred to place their savings in government bonds.

Today, the exchange is launching a regulated system for trading in small quantities of shares, which fall below the threshold for on-screen trading.

"To be complete, this has to be a market which allows everyone to operate," Mr Fumagalli said.

The new futures contract – known as the FIB 30 – will be promoted with a series of international road-shows, beginning in London at the end of this month, and will be traded between 9.30am and 5.30pm once the market is launched.

The MIB 30 index, based on the 30 largest and most widely traded stocks, is to be compiled by the exchange from today.

Frankfurt SE cuts seat prices

By Andrew Fisher in Frankfurt

The Frankfurt Stock Exchange has cut the price of floor seats by more than half and reduced its electronic order-routing fees to make trading cheaper and more liquid.

Under new rules passed Friday, traders abroad will also eventually be able to join the IBIS electronic trading system. The exchange – accounting for three-quarters of business on Germany's seven stock markets – said interest in IBIS membership had been shown from London, Amsterdam and Paris in particular, and from Switzerland and Luxembourg.

The fee for admission to floor-trading has been cut from DM500,000 ($322,580) to DM200,000, with brokers' fees down from DM200,000 to DM80,000. The DM15,000 admission fee for individual traders has also been removed.

The exchange's current membership comprises 138 banks (half foreign and half German) and 97 brokers.

Mr Werner Seifert, chief executive of Deutsche Börse AG, which operates the Frankfurt exchange said: "Our goal is to offer cheaper and more liquid trading than all other markets in German securities."

Members using only the electronic order-routing system will pay half the annual DM24,000 trading fee; the annual fee of DM3,000 per trader has also been waived.

Beta to launch fund for Cuba

By Pascal Fletcher in Havana

Beta Funds, a London-based company, is planning to launch a $50m investment fund for Cuba and has created the first investment management company to be represented on the island.

Havana Asset Management, a new subsidiary of Beta Funds International, will manage the planned Cuba investment fund, which is expected to be established early next year.

Mr Peter Scott, Beta's chief executive, said its expected areas of investment included hotels and tourism, mining, food and beverages, the high-tech pharmaceutical sector and specialised manufacturing. It would invest in new joint venture companies, existing Cuban companies and foreign companies with a significant exposure to Cuba.

Beta specialises in spotting new markets and pioneered the creation of investment management companies in Vietnam and Poland. It has more than $230m invested in emerging markets.

The Cuban government has opened up sectors of the economy to foreign investors. It has signed more than 100 new trade and investment deals, from oil exploration and mining to cosmetics and textiles.

Mr Scott said the Cuba fund had aroused interested in the UK, Scandinavia, Switzerland, Spain, Italy and Mexico.

Besides Beta, the other shareholders in Havana Asset Management are Nueva Compania de Indias, a Spanish trading company operating in Cuba, and James Miura, of Ninecastle Overseas, a UK investment management company. Mr Scott said Cuba had provided legal safeguards for foreign investors by signing investment promotion and protection agreements with a number of countries, including the UK.

Mr Scott said the fund's articles would not permit the participation of investors from the US, whose government maintains a trade and financial embargo against Cuba. He believed relations between Cuba and the US would follow the same path as Vietnam, against which Washington lifted a long-standing economic embargo earlier this year.

US satellite TV group looks to Europe

By Raymond Snoddy

Hughes Communications, the main backer of the DirecTV satellite television system in the US, is believed to be interested in expanding into Europe.

Preliminary approaches have been made to the two satellite television operators in Europe, Eutelsat and SES, the Luxembourg-based organisation that runs the Astra satellite system.

Both organisations have satellites due to be launched within the next few weeks but both are understood to be full.

SES plans to launch a fifth satellite in July 1995 which will probably offer digital services and Eutelsat intends to launch a digital satellite in 1996.

Interspace, a specialist newsletter, said yesterday that Hughes was interested in trying to launch direct-to-the home satellite television services to European countries not well served by satellite television, such as Italy, Spain and eastern Europe.

Skopbank may need more help

By Christopher Brown-Humes in Stockholm

Skopbank, the state-controlled Finnish bank, has warned that it might need further government support before the year end, in spite of a 49 per cent reduction in net operating losses in the first eight months.

The bank said its results could deteriorate in the final four months of 1994 if it has to make provisions to cover possible losses from restructuring.

The bank has been the biggest casualty of the Finnish banking crisis, receiving more than FM17bn ($3.62bn) in government assistance since it was rescued by the Bank of Finland in September 1991.

The drop in the bank's net operating loss to FM448m in the first eight months followed a 58 per cent fall in credit losses to FM871m.

The improvement would have been greater but for a 47 per cent decline in income from financial operations to FM176m. The fall reflects a significant reduction in lending volumes and a FM55m loss on bonds.

Skopbank's role as the central bank of the Finnish savings banks has changed following the restructuring of the Savings Bank of Finland in late 1993.

The bank continues to service domestic corporate customers and also represents the savings banks in wholesale markets.

Electrolux to expand in Asia

By Christopher Brown-Humes

Electrolux, the world's biggest manufacturer of household appliances, said that it aims to double its revenues from Asian countries to SKr10bn ($1.37bn) within five years as part of its expansion drive in the region.

"Our target is to be one of the major players, corresponding to our position in Europe and the US," said Mr Leif Johansson, Electrolux chief executive.

The company also said that it was planning to open five new factories in the region within three years at sites still to be finalised.

Following its purchase of AEG's household appliance unit, Electrolux has switched the focus of its expansion strategy to Asia.

It has recently launched a $50m investment programme in the Asean region and said that it intended to spend $100m in China over three years. The moves anticipate a substantial rise in disposable incomes.

"We expect China to emerge as the world's largest market for refrigerators by the end of this year and will be exporting more fridges than Japan," said Mr Johansson.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, October 14, 1994. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	4141.07	2600.36	1710.69	2645.88
Albania	(Lek)	158.100	99.2058	65.7247	101.656
Algeria	(Dinar)	64.6490	40.7177	26.7869	41.4305
Andorra	(Fr Fr)	8.2966	5.2097	3.4273	5.301
	(Sp Peseta)	201.260	126.36	83.1412	128.592
Angola	(New Kwanza)	221547.5	139119	91522.1	141555
Antigua	(E Car $)	4.2957	2.6974	1.7745	2.7446
Argentina	(Peso)	1.5906	0.9981	0.6566	1.0156
Aruba	(Florin)	2.8479	1.7893	1.1764	1.8196
Australia	(Aus $)	2.1546	1.3505	0.8942	1.3831
Austria	(Schilling)	17.0396	10.7	7.0392	10.8875
Azores	(Port Escudo)	247.968	155.71	102.436	158.436
Bahamas	(Bahama $)	1.5925	1	0.6578	1.0175
Bahrain	(Dinar)	0.6004	0.377	0.248	0.3836
Balearic Is	(Sp Peseta)	201.260	126.36	83.1412	128.592
Bangladesh	(Taka)	62.9036	39.5	25.9857	40.1915
Barbados	(Barb $)	3.2000	2.0094	1.3219	2.0445
Belgium	(Belg Fr)	49.6772	31.32	20.6044	31.8683
Belize	(B $)	3.1620	1.9861	1.3144	2.033
Benin	(CFA Fr)	829.660	520.98	342.736	530.1
Bermuda	(Bermudian $)	1.5925	1	0.6578	1.0175
Bhutan	(Ngultrum)	49.9607	31.3724	20.6389	31.9217
Bolivia	(Boliviano)	7.4211	4.66	3.0656	4.7416
Botswana	(Pula)	4.3335	2.7211	1.7901	2.7686
Brazil	(Real)	1.3162	0.8264	0.5437	0.8409
Brunei	(Brunei $)	2.3514	1.4766	0.9713	1.5023
Bulgaria	(Lev)	102.293	64.2342	42.2578	65.3597
Burkina Faso	(CFA Fr)	829.660	520.98	342.736	530.1
Burma	(Kyat)	9.1796	5.7642	3.7921	5.8651

		£ STG	US $	D-MARK	YEN (X 100)
Gambia	(Dalasi)	15.4327	9.6908	6.3753	9.8605
Germany	(D-Mark)	2.4207	1.52	1	1.5466
Ghana	(Cedi)	1606.91	1009.06	663.82	1026.71
Gibraltar	(Gib £)	1.00	0.6279	0.4131	0.6389
Greece	(Drachma)	371.451	233.25	153.448	237.334
Greenland	(Danish Krone)	9.4939	5.9616	3.9219	6.066
Grenada	(E Car $)	4.2957	2.6974	1.7745	2.7446
Guadeloupe	(Local Fr)	8.2966	5.2097	3.4273	5.301
Guam	(US $)	1.5925	1	0.6578	1.0175
Guatemala	(Quetzal)	9.1690	5.7636	3.7862	5.8545
Guinea	(Fr)	1555.58	976.816	642.616	993.917
Guinea-Bissau	(Peso)	19822.3	12447.3	8188.66	12665.2
Guyana	(Guyanese $)	224.806	141.167	92.869	143.638
Haiti	(Gourde)	30.2230	18.9621	12.4877	19.3144
Honduras	(Lempira)	14.1917	8.9115	5.8626	9.0675
Hong Kong	(HK $)	12.3061	7.7275	5.0836	7.8626
Hungary	(Forint)	170.016	106.76	70.2336	108.628
Iceland	(Icelandic Krona)	107.774	67.6759	44.5218	68.8607
India	(Indian Rupee)	49.9607	31.3724	20.6389	31.9217
Indonesia	(Rupiah)	3462.02	2173.95	1430.17	2212.01
Iran	(Rial)	2765.50	1736.56	1142.44	1766.98
Iraq	(Iraqi Dinar)	0.4946	0.3105	0.2043	0.316
Irish Rep	(Punt)	1.0089	0.6341	0.4171	0.6452
Israel	(Shekel)	4.8066	3.0182	1.9856	3.0711
Italy	(Lira)	2468.77	1550.25	1019.86	1577.39
Jamaica	(Jamaican $)	51.7076	32.4693	21.3605	33.0378
Japan	(Yen)	158.619	98.285	64.6596	100.006
Jordan	(Jordanian Dinar)	1.1116	0.698	0.4592	0.7102

		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)	48.7614	30.6194	20.1436	31.1554
Panama	(Balboa)	1.5925	1	0.6578	1.0175
Papua New Guinea	(Kina)	1.7303(4)	1.0865	0.7147	1.1055
Paraguay	(Guarani)	3050.74	1915.69	1260.27	1949.25
Peru	(New Sol)	3.5545	2.232	1.4683	2.2711
Philippines	(Peso)	40.6895	25.55	16.8085	25.9973
Pitcairn Is	(£ Sterling)	1.00	0.6279	0.4131	0.6389
	(NZ $)	2.6260	1.6489	1.0848	1.6778
Poland	(Zloty)	36731.0	23065	15173.7	23468.8
Portugal	(Escudo)	247.968	155.71	102.436	158.436
Puerto Rico	(US $)	1.5925	1	0.6578	1.0175
Qatar	(Riyal)	5.7912	3.6365	2.3923	3.7002
Reunion Is. de la	(F Fr)	8.2966	5.2097	3.4273	5.301
Romania	(Leu)	2771.50	1740.35	1144.92	1770.81
Rwanda	(Fr)	216.20(2)	135.761	89.313	138.136
St Christopher	(E Car $)	4.2957	2.6974	1.7745	2.7446
St Helena	(£)	1.00	0.6279	0.4131	0.6389
St Lucia	(E Car $)	4.2957	2.6974	1.7745	2.7446
St Pierre	(French Fr)	8.2966	5.2097	3.4273	5.301
St Vincent	(E Car $)	4.2957	2.6974	1.7745	2.7446
San Marino	(Italian Lira)	2468.77	1550.25	1019.86	1577.39
Sao Tome	(Dobra)	1305.61	819.785	539.311	834.138
Saudi Arabia	(Riyal)	5.9743	3.7515	2.468	3.8172
Senegal	(CFA Fr)	829.660	520.98	342.736	530.1
Seychelles	(Rupee)	7.8357	4.9203	3.2369	5.0065
Sierra Leone	(Leone)	930.735	584.449	384.49	594.681
Singapore	($)	2.3514	1.4765	0.9713	1.5023
Slovakia	(Koruna)	49.2240	30.9096	20.3346	31.451
Slovenia	(Tolar)	194.643	122.225	80.4077	124.365

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FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Bronwen Maddox

Masters of a fragmented universe

Globalisation is a word heard these days from only a handful of industries. Once the height of fashion, used to justify the acquisitive tendencies of companies right across the stock market, it fell from popularity when many of those deals proved disappointing and when recession squeezed margins and balance sheets.

But in some corners it lives on. At least two companies among those declaring third-quarter corporate results this week continue to wield the language of globalisation unabashed. They do not suggest that the pursuit of international scope is damaging in itself but they do lend some weight to the sceptics.

■ WMI

Waste Management International, the UK arm of WMX Technologies of the US, which releases its third-quarter results today, is one case. WMI has pursued growth through acquisition: last year it made 48 acquisitions in 12 countries, and in the second quarter this year another 16.

WMI's directors argue that pollution control is a global business. Last year's annual report declares that WMI "has established a strong leadership in [the] global marketplace" for environmental services, and values this market, excluding North America, at £150bn.

It is true that that environmental regulation has been tightening in industrialised countries as well as in some industrialising ones in southern Asia. In particular, there has been a drive, both national and international, to tighten standards on disposal of solid waste and hazardous waste, the areas on which WMI focuses. In regulating pollution, many countries targeted threats to air and water first and have only recently turned to solid waste.

But what benefits does international scale bring to a company in those markets? Standards are set nationally or regionally; the ability to manage a landfill in the UK does not imply that the company can do the same in Germany.

WMI argues that its experience allows it to improve the management of the businesses it takes over. That is plausible, but risky. The liabilities of waste companies that have been technically lax as well as inefficient are potentially huge.

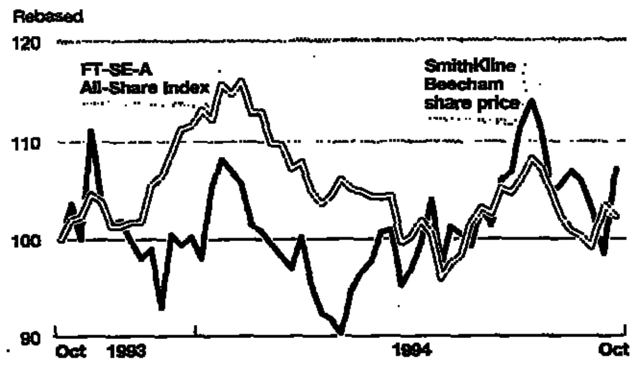
WMI also argues that once it has entered a market it can grow organically by winning new contracts because it has advantages over local companies. It can, it says, display to government officials a track record of managing large scale projects. Its size also reassures them about its ability to meet potential liabilities; adequacy of financial resources became a condition of UK waste licences earlier this year.

However, one of the unfortunate near-global characteristics of the waste industry is that choice of contractor is frequently influenced by special deals, if not corruption, particularly where local government awards contracts. It is not too cynical to ask whether the attractions of the professionally run "outsider" to such markets will prevail over those offered by local rivals.

In WMI's case, the question of whether the group's rush for international presence has left it capable of organic growth is now in the forefront; some analysts believe its hefty goodwill write-offs and consequently rising gearing are a constraint to further acquisitions.

It is perhaps too early to judge. The group has had notable success in winning contracts in Asia, but it is harder to assess its chances in Europe given sluggish economic recovery. The slump of some 15 per cent in the share price relative to the FT All-Share Index since its 12-month peak in September largely reflects concerns about European growth; and Italy in particular. But the group will be under pressure to demonstrate that the world's waste industry is not simply a fragmented collection of essentially different businesses, and that global presence pays off.

The prescription for health?



Source: FT Graphite

Total return in local currency to 13/10/94

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.09	0.04	0.09	0.10	0.16	0.10
Month	0.41	0.22	0.42	0.45	0.70	0.46
Year	3.44	2.44	5.88	6.19	8.25	5.59
Bonds 3-5 year						
Week	0.56	-0.47	0.93	1.02	0.52	1.13
Month	-0.28	-0.56	0.40	0.81	1.92	1.17
Year	-2.76	-0.23	1.81	0.43	0.69	0.91
Bonds 7-10 year						
Week	0.99	-0.49	2.15	2.15	1.55	1.68
Month	-0.56	-0.81	1.36	1.15	2.58	1.72
Year	-7.58	-1.72	-2.78	-5.81	-7.21	-2.56
Equities						
Week	3.4	1.9	5.7	5.4	-0.6	5.2
Month	0.4	1.3	-2.6	-1.2	-0.6	0.6
Year	4.2	-0.9	3.0	-3.3	13.2	13.2

Source: Cash & Bonds - Lehman Brothers. Equities-© NatWest Securities. The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co., and NatWest Securities Limited.

■ SmithKline

Some of the same points can be put to the world's pharmaceutical and healthcare giants, including SmithKline Beecham, which reports third-quarter results on Tuesday.

SmithKline's results will shed more light on the impact of the loss of US patent protection for Tagamet, the group's ulcer treatment. But most attention will be focused on the integration of the two recent mega-deals: the $2.9bn purchase of Sterling Winthrop, the over-the-counter medicines group, in August, and the $2.3bn purchase of Diversified Pharmaceutical Services, one of the four largest US drug wholesalers, in May.

The strategy, which pushed gearing up to nearly 300 per cent, assumes that the deals will help protect margins and profits growth as competition from generic drugs grows and as governments pare back healthcare budgets. In the case of the Sterling deal, which makes SmithKline the world leader in over-the-counter drugs and sharply reduces its dependence on the US, that reckoning looks sound.

According to SmithKline, the worldwide OTC market grew by more than 7 per cent last year, twice as fast as in the US. SmithKline hopes to use its distribution network in 100 countries to lift sales across its product line. It is also betting that European governments, hard pressed to pay the cost of prescription medicines, will increasingly back OTC remedies.

Analysts question whether the long-term profitability of the OTC market is as great as SmithKline expects, and are anxious to see evidence that it can cut costs as promised. But their bigger concerns are directed at the DPS deal.

It is unclear yet whether the deal will be the platform for the provision of wider healthcare services, as SmithKline hopes, and whether that concept can be exported to Europe and beyond. Given the wide variations in national healthcare systems, it would be surprising if there were a simple prescription for success.

COMMODITIES Richard Mooney

Lead and zinc group meets

Leaders of the world's lead and zinc industries, who have been meeting in Vienna over the weekend, today begin the 39th full session of the International Lead and Zinc Study Group.

The session, which continues tomorrow, follows committee meetings among the 300 government and industry participants. Many will have been continuing debates begun at last week's London Metals Week on the influence on metal markets of the influx over the past two years of money from international investment funds, which have come to regard commodities as a long-term asset to be traded as alternatives to traditional securities such as equities and bonds.

The distortions this has entailed will be a factor when the study group considers demand and prices for the two sister metals.

A report published last week by Billiton Metals said both metals were "poised to derive significant benefits from the period of synchronised growth emerging in the major industrialised economies".

"On the production side," it said, "mine cutbacks have resulted in substantial shortfalls of concentrate [an intermediate material]. In 1993 contained zinc output fell by some 450,000 tonnes (8 per cent), while that of lead declined by 300,000 tonnes (13 per cent). Further reductions will be experienced this year, although restarts and new additions to zinc capacity are already starting to reverse this situation. These will have little impact on lead concentrate output, and a further deficit seems likely this year."

● Other events this week include the 1st International Conference on Mining Environmental Management in Reno Nevada, which began yesterday and continues until Wednesday. The conference, sponsored by Mining Journal and Mining World News, will focus on mining-oriented environmental legislation, the financial implications, the available technological solutions and management control systems.

Economics Notebook

Problems with exchange rates

The recent wild gyrations of the rouble may be a world away from the day to day preoccupations of foreign exchange markets. But they have been a reminder that currencies can be very volatile and have the capacity to spring surprises.

Indeed, the many instances of foreign exchange market turbulence since the collapse of the semi-fixed Bretton Woods exchange rate system in 1973 have meant that exchange rate stability is rarely far from policy makers' minds.

Trading in leading currencies has been comparatively calm so far this year. But this summer's celebrations of the 50th anniversary of the Bretton Woods agreement triggered an extensive review among policy makers and academics of the current state of the international monetary system.

The first obvious point to emerge from a plethora of conferences and reports is that nobody is particularly satisfied with the so-called "non-system" of floating exchange rates for the world's leading traded currencies. On the other hand, it is difficult to think of anything better.

The last of the big conferences marking the 50th birthday of Bretton Woods took place just ahead of this year's annual meetings of the International Monetary Fund and World Bank in Madrid.

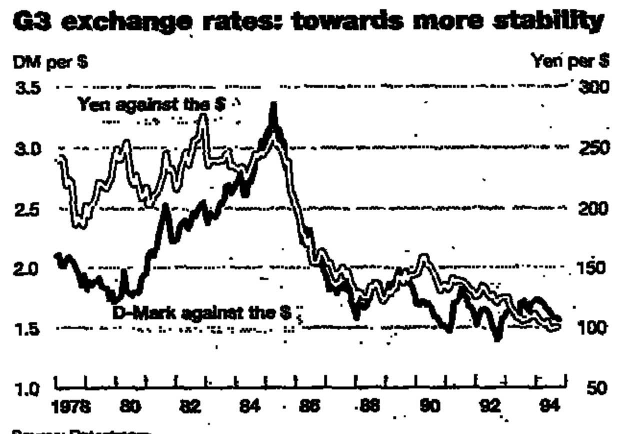
It was clear that there was a strong desire for greater exchange rate stability, particularly among such international monetary luminaries as Mr Paul Volcker, the erstwhile chairman of the Federal Reserve Board, and Mr Jacques de Larosière, the former managing director of the International Monetary Fund who now heads the European Bank for Reconstruction and Development.

Equally striking was the rejection by practising finance ministers and central bankers of the idea that the big three currencies – the dollar, yen and D-Mark – should be confined within "target zones".

The general perception was that financial flows were too strong to permit any attempt by the Group of Seven leading industrial countries to peg currencies in a more formal way. With characteristic bluntness, Mr Kenneth Clarke, the UK chancellor, said that a return to targets for exchange rates was "not remotely in the gift of the G7".

The accompanying chart, prepared by Ms Wendy Dobson, a professor at the University of Toronto and a former senior Canadian finance ministry official, suggests that pressure for formal target zones may be misplaced. She points out that "a fair degree of stability" has existed among the leading currencies since 1987. Although floating rates are thought to worsen the climate for investment and international trade, world trade and investment have grown faster than world incomes since 1983.

G3 exchange rates: towards more stability



Source: Datastream

But these relative successes are no reason for leaving the system unchanged if it can be improved.

In considering ways of promoting exchange rate stability, officials have been looking at the surveillance responsibilities of the International Monetary Fund.

At present the IMF is charged with exercising "firm surveillance over the exchange rate policies of countries". To this end it examines international monetary issues and analyses in detail the economic policies of its members, usually by sending missions to national capitals. These comb through the relevant data and discuss the results with the governments concerned. The findings from these so-called Article IV consultations are discussed by representatives of member countries in the IMF board but generally kept out of the public eye.

Earlier this month, the Fund's policy making Interim Committee, representing its 179 members, ordered the IMF's executive board to work on strengthening Fund surveillance.

The idea is that if countries can be persuaded to pursue sound and compatible economic policies, there will be less danger of exchange rates moving out of line.

However, surveillance has been around for some time and has not always proved successful. Mr de Larosière pointed out in Madrid that it had failed to prevent a sharp increase of public indebtedness in industrialised countries in the 1980s.

The policy environment may be more encouraging today, even though this month's IMF meetings were marred by a row between the G7 countries and other nations over a proposed boost to global monetary reserves.

Industrialised and developing countries are in broad agreement on the policies required to foster sustained non-inflationary growth. With policies and performance more in line than before there should be fewer fundamental reasons for exchange rates to move out of line.

There are also plenty of ideas for making surveillance more effective. Ms Dobson has put forward suggestions for improvements to the existing surveillance system "to promote international peer group pressure for sound domestic policies". In particular, she suggests that the results of the IMF's Article IV consultations should be published. She has called for the greater involvement of the fast growing east Asian countries in discussion with the G7 nations.

But although surveillance is fashionable, Mr Michael Mussa, the IMF's chief economist, warns that it would be going too far to see it as a stepping stone to a more fixed exchange rate system.

Such words will encourage the supporters of target zones: they have lived to fight another day.

Peter Norman

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

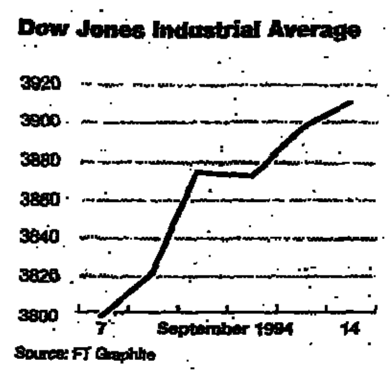
NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY OCTOBER 14 1994 US Dollar Index	%chg since 31/12/93	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/93	Gross Div. Yield	THURSDAY OCTOBER 13 1994 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (68)	168.19	0.8	156.57	104.49	132.92	152.05	-7.0	3.65	168.14	157.86	106.20	134.82	151.64	189.15	149.36	154.46
Austria (16)	184.45	-0.3	171.71	114.59	145.77	145.74	-12.5	1.10	181.70	170.36	114.76	145.89	145.83	198.89	167.46	180.05
Belgium (37)	169.42	4.2	157.71	105.26	133.89	130.86	-9.8	4.21	166.70	156.29	105.28	133.66	130.48	177.04	149.33	152.12
Canada (103)	137.48	1.2	127.98	85.41	108.64	134.64	3.4	2.49	138.12	129.50	87.23	110.75	134.76	145.31	120.54	128.07
Denmark (33)	253.48	2.5	235.96	157.48	200.32	205.52	-10.0	1.44	249.80	234.21	157.77	200.30	205.40	275.79	230.27	234.58
Finland (24)	192.98	56.6	179.65	119.89	152.51	190.42	27.2	0.74	185.29	173.73	117.03	148.57	185.49	192.98	116.85	120.05
France (101)	171.69	-2.4	159.83	106.67	135.68	140.31	-13.9	3.09	171.02	160.34	108.01	137.12	141.67	185.37	169.34	167.95
Germany (58)	146.28	4.3	136.16	90.87	115.59	115.59	-8.7	1.79	142.89	133.98	90.25	114.58	114.58	150.40	128.37	134.24
Hong Kong (56)	387.76	-20.8	360.98	240.91	306.45	384.70	-20.8	3.19	387.97	383.76	245.04	311.09	384.89	506.56	333.34	333.34
Ireland (14)	211.74	14.3	197.11	131.55	167.34	189.18	2.1	3.38	209.13	196.08	132.08	167.69	188.33	216.60	171.40	171.40
Italy (59)	78.81	14.9	73.37	48.96	62.28	91.24	4.0	1.89	78.99	74.06	49.89	63.34	92.45	97.78	57.86	69.89
Japan (468)	162.48	24.9	151.26	100.95	128.41	100.95	10.0	0.76	161.31	151.24	101.88	129.35	101.88	170.10	124.54	152.61
Malaysia (97)	562.92	-4.8	524.04	349.73	444.88	555.33	-9.5	1.51	563.02	527.89	355.60	451.48	557.60	621.63	430.71	451.66
Mexico (18)	2287.50	-4.2	2129.46	1421.15	1807.78	8542.26	5.3	1.20	2270.20	2128.50	1433.80	1820.29	8480.16	2647.08	1696.28	1761.32
Netherland (19)	217.78	9.4	202.74	135.30	172.11	169.25	-4.1	3.41	214.81	201.40	135.67	172.24	169.35	218.19	187.01	181.95
New Zealand (14)	73.04	7.5	67.99	45.38	57.72	63.94	-0.8	3.80	72.34	67.83	45.69	58.01	63.43	77.59	59.22	64.12
Norway (23)	208.81	16.2	194.38	129.72	165.01	187.85	2.4	1.76	203.57	190.86	128.57	163.23	185.62	211.74	165.52	179.80
Singapore (44)	394.76	7.4	367.49	245.26	311.98	268.60	-1.4	1.57	389.57	365.26	246.05	312.38	266.10	394.76	294.66	321.45
South Africa (59)	321.83	20.5	299.60	199.95	254.34	288.05	15.0	2.23	320.66	300.65	202.52	257.11	287.36	321.83	202.72	217.38
Spain (38)	143.73	3.1	133.80	89.29	113.58	137.61	-8.8	4.03	142.66	133.76	90.10	114.39	138.56	155.79	128.88	143.15
Sweden (36)	234.57	19.4	218.37	145.73	185.38	253.99	4.8	1.58	231.09	216.66	145.95	185.29	252.98	234.57	175.83	202.51
Switzerland (47)	168.32	5.1	156.69	104.57	133.02	131.85	-10.6	1.84	165.74	165.39	104.68	132.89	132.09	176.66	143.64	145.75
United Kingdom (204)	201.19	-1.9	187.29	124.99	159.00	187.29	-8.8	4.06	201.82	189.22	127.47	161.83	189.22	214.96	181.11	189.58
USA (515)	191.41	0.8	178.19	118.92	151.27	191.41	0.8	2.83	190.89	178.98	120.56	153.06	190.89	198.04	178.95	190.59
EUROPE (709)	174.15	3.4	162.11	108.19	137.62	151.76	-8.1	3.05	172.94	162.15	109.23	138.67	152.45	178.58	154.79	160.60
Nordic (116)	227.80	20.2	212.06	141.53	180.03	210.30	4.2	1.41	223.25	209.32	141.00	179.01	208.67	227.80	173.19	189.82
Pacific Basin (747)	171.85	18.5	159.98	106.76	135.81	111.80	5.7	1.06	170.76	160.10	107.85	136.92	112.65	176.88	134.79	159.22
Euro-Pacific (1466)	172.68	11.4	160.76	107.29	136.48	127.82	-0.5	1.92	171.56	160.85	108.35	137.56	128.83	175.14	143.88	159.68
North America (618)	188.06	0.9	175.07	116.84	148.62	187.49	0.9	2.82	187.61	175.90	118.49	150.43	187.01	192.73	175.67	186.72
Europe Ex. UK (505)	155.84	5.6	145.07	96.82	123.15	130.88	-7.5	2.48	153.83	144.23	97.16	123.35	131.02	158.12	135.94	141.85
Pacific Ex. Japan (279)	263.00	-8.3	244.83	163.40	207.85	234.22	-12.3	2.78	262.57	246.18	165.83	210.54	233.99	296.21	224.43	224.43
World Ex. US (1636)	174.60	11.0	162.54	108.47	137.98	131.82	-0.1	1.93	173.51	162.68	109.58	139.12	132.38	176.65	145.58	160.23
World Ex. UK (1947)	177.00	8.0	164.77	109.96	139.88	148.32	1.2	2.06	175.96	164.97	111.13	141.09	146.61	178.59	155.96	167.39
World Ex. So. Af. (2092)	178.22	7.1	165.91	110.72	140.84	148.02	0.0	2.25	177.33	166.26	111.99	142.18	149.45	180.03	158.54	169.12
World Ex. Japan (1683)	190.06	1.2	176.93	118.08	150.20	176.89	-3.3	2.87	189.28	177.47	119.54	151.77	178.91	195.20	176.34	180.18
The World Index (2151)	179.14	7.2	166.76	111.29	141.57	150.05	0.1	2.25	178.24	167.11	112.57	142.92	150.47	180.80	158.95	169.36

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 133.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local)

EQUITY MARKETS: This Week

NEW YORK — Frank McGurty

Further rise likely to meet resistance



Source: FT Graphite

Last week's barrage of economic data was not quite a clean sweep for the bulls, but four out of five winners were more than enough to soothe Wall Street's interest rate woes, at least for the time being.

Nevertheless, analysts say stocks may have difficulty making much headway this week, even though the third-quarter reporting season is in full swing.

Part of the reason is the market surged during most of last week. Since the release of surprisingly timid employment data during the first week of the month, the Dow Jones Industrial Average has appreciated nearly 3 per cent.

The impression of moderating economic growth imparted from the jobs report was reinforced last week by news of a downturn in producer prices, a tame reading on the consumer level and stagnant output by US factories and mines.

Best of all, the rate at which the industrial sector was utilising its total capacity slipped, suggesting inflation would stay benign in the coming months. Only September retail sales came in a bit stronger than expected.

The prospect of an imminent move by the Federal Reserve to lift short-term rates now seems remote. Thus, monetary policy has joined Haiti, Kuwait and US-Japanese trade relations on the list of threats which have receded as immediate concerns. Most economists believe the Fed will wait until after the November elections before tightening its policy.

But the market may have already expended its potential to trade higher on the relief. The Dow has been brushing against technical resistance at the 3,910 level while the more broadly based Standard & Poor's 500 will have difficulty breaking through the 470 mark. On Friday, it closed at 469.10.

"It's hard to see what will push the market higher in the short run, outside of good earnings news," says Mr James Solloway, an analyst at Argus Research in New York. "The trouble is, it's hard to judge how much of the improved earnings is already built into share prices."

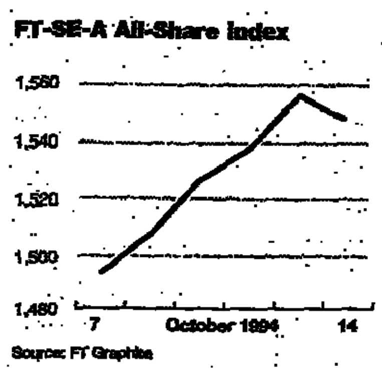
Last week, investors' expectations were mostly vindicated but strong performances did not always translate into big gains in share values. Chrysler was the first of the Big Three car makers to release third-quarter results, announcing a 55 per cent profits rise. But its shares improved only slightly.

This week General Motors is expected to publish its results. Some analysts fear its key North American operations will post a loss, though a robust bottom line is widely forecast.

IBM's third-quarter results, still the computer groups' bellwether, are also due. Wall Street expects to see continued progress from the company, which was running at a loss a year ago.

LONDON — Terry Byland

Final quarter promises more gains



Source: FT Graphite

Suddenly, the UK stock market looks a more confident place and the final quarter of the year offers a more promising prospect. Since the beginning of October, the market has recovered by about 5.7 per cent after its prolonged setback over the previous month and, more importantly, the gilt-equity yield ratio has returned to around 2.19 times.

The first question on the lips of every market analyst is whether the market rebound will carry it up to those optimistic year-end targets set up earlier in the year. This would require a further gain of well over 8 per cent from Friday night's levels, so it may be a little early to start cheering.

The technicians, as always, sound cautious. Derivative Securities, the futures market specialist, having correctly pointed out that the market was markedly oversold at the end of last week, is now wary of the steepness of the sudden rise; "far too steep to be sustained for too long", it comments.

If the market breaks out above the Footsie 3,110-3,135 band, Derivative Securities sees the next line of resistance at 3,175-3,220. Still a fair distance away from those 3,400-3,600 Footsie year-end forecasts on record.

The view consolidating among analysts is that the market has been over-estimating the dangers of inflation and the interest rate fears which go with them. ". . . the implied risk embedded in the valuations of gilts and equities is way too high," summarises Richard Jeffrey at Charterhouse Tilney, adding bluntly that the belief that base rates could move a further 1 per cent higher this year "was wrong". The strategy team at Yamaichi puts it even more strongly, saying the latest inflation data indicates that the previous figures were "probably an aberration".

This sea change in views on inflation has been inspired by the US as well as developments at home. Linked to expectations of a broadly neutral Budget next month – at the Conservative conference, the chancellor of the exchequer stood fast against premature tax cuts – the likelihood of a further recovery in gilts this week is rated highly. And, as equity strategists have argued for many weeks, recovery in bonds is the required basis for a recovery in equities.

Markets have remained highly volatile, and investors would be wrong to ignore this just because the trend has been upward, for a change. This week and the week following present a host of hurdles in the shape of global and domestic economic data.

Also overhanging investors will be the prospects for the November budget and the likelihood that an important by-election will shortly test the nerves as well as the political ratings of Mr Major's government. The market may have to struggle hard for that final 8 per cent gain.

International offerings

Strong overseas interest in Swedish privatisation

International investors will soon be able to invest in Stadshypotek, Sweden's largest mortgage lender, currently being privatised by the Swedish government.

The international equity portion of the deal may be smaller than originally anticipated by bankers advising the government. But there are hopes that overseas investors could buy up to $300m of shares, making the deal one of Scandinavia's – and possibly one of Europe's – biggest international equity offerings this year.

This could be one of the last opportunities for some time for investors to obtain privatised Swedish stock because the newly-elected Social Democrat administration is less committed to state sell-offs than its predecessor.

"The current government has made no commitment to a privatisation programme. We will see a hiatus with no new paper coming through. The flow of paper will dry up for a while," said Mr John St John, director of equity capital markets at Kleinwort Benson, which is joint global co-ordinator of the deal with Alfred Berg.

Kleinwort and Alfred Berg are co-leads for the US tranche, with Salomon Brothers as co-manager. The tranche for the rest of the world, including Sweden, involves Goldman Sachs, UBS, Cazenove, Nomura, Indosuez, J.P. Morgan and Dresdner.

Overall, Stadshypotek, a mutual company which controls about a third of the Swedish mortgage market, aims to raise SKr3bn in an international and domestic offering.

Bankers are impressed by overseas interest. "I have been astonished at the interest from big, blue-chip institutions, both in Europe and the US," said Mr Jakob Kinde, director of corporate finance at Kleinwort Benson.

Kleinwort Benson was brought in after its success with the sale of Abbey National, the UK building society, and the 1993 demutualisation of Föreningsbanken, the Swedish farmers' bank. Mr Kinde says Stadshypotek represents good value. "This is a low-risk business with high earnings ability."

Bankers had hoped there would be $500m for international investors, but the domestic take-up has so far been higher than expected, partly because Swedish home owners and corporate borrowers are being offered free shares to tempt them to invest in Sweden's largest initial public offer. This means the precise size of the international offering will not be known until the sale offer for the domestic side – described by Mr Kinde as a "rights issue to mortgage holders" – closes on October 21.

Kleinwort has introduced a unique and complicated structure for the domestic side of the Stadshypotek deal.

Borrowers who have mortgages with the Stadshypotek will be given 37.5m shares currently owned by the state-owned Stadshypotekskassan or Urban Mortgage Bank, for free. They will also be offered the right to buy a total of 37.5m new shares at SKr80 a share.

The bigger their mortgage, the more new shares they can buy. The UMB shares were trading at around SKr90 each on Friday. About half of Stadshypotek's 760,000 mortgage holders are property companies which may not subscribe to the rights, and their entitlement will form the basis of the international tranche.

The UMB owns all 80m of the existing Stadshypotek shares. After the capital increase its shareholding will be cut to 36 per cent. All the SKr3bn raised from the rights issue will go to boost the balance sheet of Stadshypotek, allowing it to obtain better terms when it begins to borrow in its own name at the start of next year.

Martin Brice

OTHER MARKETS

MILAN

The November trading account, which starts today, will be marked by several capital increases, the largest being that of Credito Italiano, which is launching a rights issue, priced at L1,500, to raise more than L1,000bn.

UBS notes that Credito is following in the steps of BCI, which raised money after the summer and, like BCI, is talking of a possible large acquisition.

"Rumours are already beginning to circulate about various possible targets and, with the improvement of banking margins in the second half of this year, this would help to lift the banking sector out of its doldrums."

Meanwhile, Milan's new Mib 30 index, to be used as a base for futures contracts, is launched today calculated on a basket of 30 blue chip shares.

The index will be adjusted every five minutes and every minute when the futures contract is in place.

The base value of the Mib 30 was set at 10,000 using the value of December 31 1992. Further measurements are based on the existing BCI-30 index run by Banca Commerciale Italiana.

The new index will be assessed daily from start of negotiations and will finish with the end of contract cancellations.

PARIS

The market continues to be volatile, although most commentators have an overweight position, favouring France over Germany on a medium to long-term view, *writes John Pitt*. S.G. Warburg is overweight in the consumer sector, and it also likes the luxury end of the sector, such as LVMH.

However, within the luxury segment, Rémy Cointreau, due to release half-year results this week, is less favoured by brokers. James Capel has downgraded the stock to hold, given the drain on profits due to heavy investment in upgrading its distribution network.

JOHANNESBURG

The South African markets will be focusing on the release of the major gold producers' quarterly results this week, including Anglo-American, Johannesburg Consolidated Investments and Gengold, *writes Mark Suzman*.

The country's other major mining house, Gold Fields of South Africa, reported last week. It showed improved profits and attributed them to a fall-off in the election-related unrest and work stoppages that had dented the June figures. Following the successful resolution of this year's wage negotiations, the other mining companies are also expected to have boosted production on the quarter, which should cheer investors.

Whether the results have a significant effect on the stock market, however, is largely dependent on the fluctuating gold price. In recent months, the bourse's All Gold Index has been rising steadily on the back of an improving gold price.

However, after the metal failed to breach the psychologically important $400 an ounce barrier, speculators have started to sell and in the past two weeks it has since tumbled back below $390 on the back of profit-taking. Gold shares have largely followed the metal's downward trend and are currently well off their September peaks.

TOKYO

Subscribers who have been reallocated Japan Tobacco shares for the second round of sales have until Thursday to purchase the stock. The ministry of finance announced last week that 66.2 per cent of the Japan Tobacco shares offered had been unsold. Mr Jason James at James Capel expects, however, that investors will remain unenthusiastic, and that Y300bn of the issue will remain unsold.

While Japan Tobacco's saga has had little impact on the broader stock market, the ministry has yet to decide whether to release the unsold shares on to the secondary market following the listing of JT on October 27. Any such move this week could dent investor confidence.

Meanwhile, earnings revisions will continue to exert an influence on share prices this week, as will the yen's movements.

HONG KONG

Nerves are creeping into the market, as external influences combine with a growing realisation that south-east Asia does not have a monopoly on economic growth, *writes Louise Lucas*.

The week will again begin with the absorption of the latest US data, with brokers looking at capacity utilisation for clues on forthcoming movements in interest rates, which could feed through to Hong Kong. Concerns are also spreading from across the border. Shanghai suffered another volatile week, in spite of official assurances of the robust health of China's leader, Deng Xiaoping.

Meanwhile, a trickle of unit trust redemptions is sparking fears of a more widespread sell-off in Hong Kong. Investors are discovering growth in their own home markets, not least the US, as well as other emerging markets such as South America, eastern Europe and India.

Compiled by Michael Morgan

EMERGING MARKETS: This Week

The Emerging Investor / Laura Tyson

Market hampers Taiwan financial ambitions

Taiwan wants to use its economic might to become a regional financial centre.

However having a stock market that is highly restrictive to foreign investment, dominated by insiders and subject to political interference poses a formidable obstacle to such ambitions.

The problem has been brought sharply into focus by a recent string of share payments defaults which upset the stock market and sparked accusations of lax regulation and involvement of politicians and officials.

"This kind of event has happened repeatedly. We hope this time the government can institute reforms to prevent it from happening again," said Mr Daniel Chen, chief economist at ChinaTrust Commercial Bank.

"The authorities need to to re-examine the whole system, to re-examine the regulatory framework to see whether the securities and exchange commission has enough power and tools to monitor and regulate the stock market effectively."

Shares fell by nearly 15 per cent only to rebound 8 per cent last week following the crisis which involved 28 securities houses and a total of T$7.6bn in bounced cheques. On Saturday the market rose almost 2 per cent.

Mr Day Linin, chairman of the securities and exchange commission, called on the central bank to relax barriers to foreign investment, arguing that funds managed by overseas institutions had proven to be a force for stability in the market.

Foreign investors continued buying heavily into blue chip shares, helping counter the index's slide, despite panic selling by domestic investors.

Mr Liang Kuo-shu, governor of the central bank, ruled out lifting ceilings on foreign investment, citing concerns over the effect of capital flows on the exchange rate. Analysts say government officials privately fear a covert influx of "red" Chinese money and that foreign investors would take short-term profits.

Taiwan is one of the biggest stock markets among the emerging economies of Asia with a total market capitalisation of $209.2bn at the end of September. At that time direct investment by government approved foreign institutions stood at $4.49bn or 2.15 per cent of total market capitalisation.

The central bank imposes a ceiling of $7.5bn on foreign institutional funds which may be paid into the country for direct investment in local shares. Foreign individuals are barred from investing.

As of October 14, Taiwan authorities had approved investment quotas for 76 foreign institutions totalling $6.44bn, of which $4.78bn had been taken up. Pending applications amounted to $3.31bn, mostly awaiting central bank approval.

Speculative share trading by associates of Mr Oung Taming, head of the Hualon group and the local market's most notorious stock player, triggered the recent incident.

Ten best performing stocks				
Stock	Country	Friday 14/10/94	Week on week change $	%
Eregli Demir Ve Celik	Turkey	0.1100	0.0229	26.29
Duta Anggada	Indonesia	1.2420	0.1885	17.90
SM Prime Holdings	Philippines	0.3327	0.0397	13.56
Grupo Financiero Bancomer	Mexico	1.2736	0.1412	12.47
Ssangyong Oil Refining	S.Korea	32.9285	3.6364	12.41
Advanced Info Services	Thailand	18.0144	1.9527	12.16
Cia Cervecerias Unidas	Chile	5.5225	0.5956	12.09
Korea Mobile Telecom	S.Korea	756.229	75.2500	11.05
Banco de Credito	Peru	2.3387	0.2302	10.92
Cemex	Mexico	9.7204	0.9420	10.73

Source: Baring Securities

However evidence uncovered so far suggests that as many as thirty legislators, mostly from the ruling party, as well as government officials, may have played a part in the crisis.

One of the main problems, according to analysts, is that the SEC, which falls under the ministry of finance, does not have the independence and authority it needs to regulate the stock market effectively.

It cannot investigate or prosecute trading irregularities but must rely on the justice ministry's investigation bureau and the courts. And despite the best intentions of securities regulators such as Mr Day, who is widely respected and considered above reproach, investigations can be subject to political interference.

"It wouldn't matter so much if the government here took a hands-off approach, but on paper this is a heavily regulated market," said a analyst at a foreign securities house.

Calls for reform are largely drowned out amid the din of recriminations as political parties seek to discredit one another ahead of elections on December 3. Analysts say that reform is in any case unlikely in the absence of political will on the part of the ruling Nationalist party, or Kuomintang, which directly or indirectly controls much of the country's finance and industry.

"Everyone knows the KMT itself is the biggest insider trader in this market," said a Taiwanese stock analyst.

Furthermore, analysts say, the ruling party is spending vast sums to finance its candidates in elections, which it views as critical to countering the growing power of opposition parties.

Some of the funds come directly from KMT coffers but legislators are tacitly encouraged to find their own financing, and the quickest way to make make money is from the stock market.

Analysts say Mr Oung was in effect acting as fund manager for politicians, officials and other wealthy individuals who cannot be seen investing in the stock market under their own names. "Oung Taming is a magician with money. If you give him a dollar one day, he will come back two weeks later with ten dollars," said a Taiwanese investment banker.

The source of Mr Oung's magic touch is the wide and loyal following he has cultivated among the gambling-mad small investors who dominate trading on Taiwan's bourse. At the height of the market in the early 1990s, there were 4m trading accounts out of a population of 20m.

Ironically, it was Mr Oung's reputation as the patron saint of the small investor that carried him to victory when he stood for election to parliament two years ago, just after a similar share payment default crisis linked to his group.

The advent of foreign investment, first permitted in 1991, is slowly changing the character of the market, analysts say. The foreign-managed funds tend to buy blue chip industrials and avoid overpriced financial issues or speculative shares.

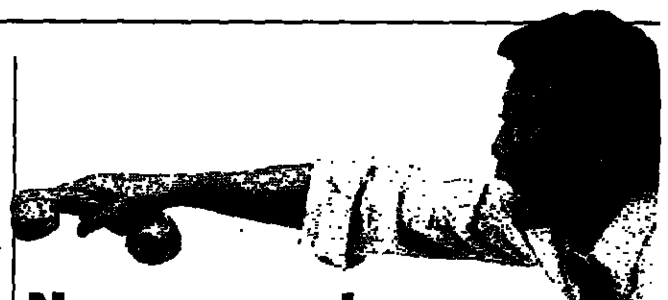
Recently domestic investors have taken an interest in those stocks preferred by foreign investors, dubbing them "foreign concept" stocks.

"Hualon is living in the past," said Mr Ben Chen, managing director of the Taiwan office of Barclays de Zoete Wedd. "They still believe if they ramp share prices high enough retail investors will jump in. But in the past year investors have mostly been pursuing stocks with a good fundamental story."

Analysts believe that as the proportion of institutional investment, be it foreign or domestic, in Taiwan's stock market increases, share prices will be less susceptible to the manipulations of a handful of speculators. It is hoped that small investors will learn from repeated scandals and avoid speculative shares.

Meanwhile, the outlook for Taiwan's stock market is positive, marred only by uncertainties surrounding the demise of Deng Xiaoping of China. There are also concerns that both formal and informal lenders will tighten credit in the wake of the recent cheque defaults scandal.

Nonetheless, the economy remains strong with economic growth forecast to top 6 per cent this year. Corporate earnings growth for blue chip companies should average 15 per cent in 1995, and in the near term the government is expected to sustain the index leading up to the elections in December.



News round-up

■ China

New rules for rights issues by listed companies are expected to help stabilise the Shanghai and Shenzhen equity markets whose A share indices, directed at domestic investors, were highly volatile last week. All rights issues must now be approved by the China Securities Regulatory Commission in addition to local governments, which previously had the final say.

■ Hungary

Quaestor Befektetesi Alapkezelo, the Hungarian investment management house, plans to launch a five-year property fund, the Quaestor Property Investment Fund, this week. The fund will use the money for buying lands and setting up residential districts, mostly around Budapest.

■ Philippines

The World Bank's International Finance Corporation and the government-owned Land Bank of the Philippines have injected an additional 100m pesos into All AsiaCapital and Trust. The infusion, which gives IFC a 10 per cent stake and Land Bank 8.33 per cent, will help the investment house diversify into mutual funds and venture capital. All AsiaCapital is involved in corporate finance, underwriting, securities dealing, loan syndication, trust services, leasing, consumer financing and strategic investment.

■ Chile

Telex-Chile SA is to raise between $100m and $110m through an issue of American Depositary Receipts (ADRs) this month. The company plans to place a total of 9.35m shares with each ADR equivalent to two shares. Most of the funds raised by the ADR placement will be used for investment abroad.

Lead manager for the international offering is Goldman Sachs.

Baring Securities emerging markets indices

Index	14/10/94	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (301)	188.83	+5.06	+2.75	-0.38	-0.20	+20.42	+12.13
Latin America							
Argentina (20)	111.27	+3.38	+3.14	-1.41	-1.25	-4.11	-3.56
Brazil (21)	242.63	+2.46	+1.02	-13.86	-5.40	+102.98	+73.74
Chile (12)	225.73	+14.53	+6.88	+29.10	+14.80	+78.19	+53.00
Mexico (25)	156.22	+7.39	+4.97	+3.16	+2.07	-5.04	-3.13
Peru(16)	925.88	+42.97	+4.87	+149.94	+19.32	+349.79	+60.72
Latin America (94)	180.78	+6.21	+3.56	+1.03	+0.57	+31.54	+21.13
Europe							
Greece (16)	86.09	-1.52	-1.73	+1.48	+1.75	+3.00	+3.61
Portugal (18)	120.33	+2.52	+2.12	-0.21	-0.17	+8.20	+7.31
Turkey (21)	86.25	-2.02	-2.29	+8.69	+11.20	-75.46	-46.66
Europe (55)	101.32	+0.23	+0.22	+2.14	+2.16	-10.91	-9.72
Asia							
Indonesia (26)	155.68	-1.27	-0.81	-4.27	-2.67	-15.36	-8.98
Korea (23)	166.92	+6.02	+3.74	+10.39	+6.63	+57.22	+52.16
Malaysia (23)	239.16	+3.73	+1.58	-8.93	-3.60	-13.89	-5.49
Pakistan (11)	117.71	+0.19	+0.16	+3.40	+2.98	+6.02	+5.39
Philippines (12)	291.12	+3.83	+1.33	+0.63	+0.22	-31.35	-9.72
Thailand (25)	272.47	+11.96	+4.59	-1.58	-0.57	+8.92	+3.38
Taiwan (32)	172.34	-0.63	-0.37	-9.67	-5.36	+18.63	+12.12
Asia (152)	228.31	+4.27	+1.91	-3.89	-1.68	+6.90	+3.11

All indices in $ terms, January 7th 1992=100. Source: Baring Securities

CURRENCIES — Philip Gawith

German election sets tone for markets

Foreign exchanges will start their week digesting political events, but key economic releases will also shape the pattern of trading.

The point of departure will be the outcome of yesterday's national poll in Germany.

A victory for the ruling coalition of Chancellor Kohl has been widely discounted by the markets. If this result transpires, further D-Mark strength can probably be expected, though the "good news" is already in the market.

The shock outcome would be a more left-oriented coalition. This scenario would cause D-Mark weakness, possibly driving the Bundesbank into raising interest rates to protect the currency.

The other important poll was yesterday's Finnish referendum on whether to join the European Union. Good economic prospects, and the prospect of a yes vote, have recently buoyed the Finnish markka, dragging other Nordic currencies in its wake.

A yes vote would lend further strength to these currencies, though continued volatility is likely in the run-up to the EU referendums in Sweden and Norway in November.

In terms of statistics, the key release will the US trade figures on Wednesday. A number of economists are predicting a large merchandise trade deficit, of about $17bn, which could prompt a bout of dollar selling. A possible counter would be an improved bilateral trade account with Japan. Some analysts say that the stronger yen, and rising economic growth in Japan, favour this outcome.

In the UK, the release on Friday of the third quarter gross domestic product figures will be closely watched.

If, as many economists suspect, they show a picture of slowing economic growth, this will underline the pre-emptive nature of last month's rise in interest rates, lending lustre to sterling assets, and sterling.

German M3 money supply, and producer inflation, figures are expected this week. Assuming a Kohl victory, they will shed light on the potential for a further fall in official rates.

WORLD BOND MARKETS: This Week

NEW YORK — Richard Tomkins

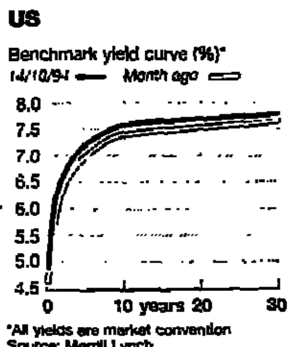
The US bond market ended last week on a positive note following Friday's barrage of favourable news on inflation.

Treasuries rallied after the government published figures showing only modest increases in consumer prices and retail sales in September. The market was also consoled by news that industrial production in September was unchanged and capacity utilisation had slipped slightly.

After other favourable economic reports during the week, traders took the view that immediate pressure for an increase in interest rates had eased and the Fed would sit on its hands at least until the next meeting of its policy-making committee on November 15.

With little in the way of sensitive data due in the next few days, analysts think bond prices will drift upwards.

Few shocks are expected from the figures for business inventories today, the trade deficit on Wednesday or housing starts on Thursday.



*All yields are market convention
Source: Merrill Lynch

One possible danger point is the Philadelphia Fed business outlook survey, also due Thursday. MMS International forecasts that the net percentage of Philadelphia companies noting a business increase in October will have risen to 17.5 per cent from 14.8 per cent last month. If the pick-up in demand is accompanied by adverse readings on prices paid and prices received, fears of inflation could be reawakened.

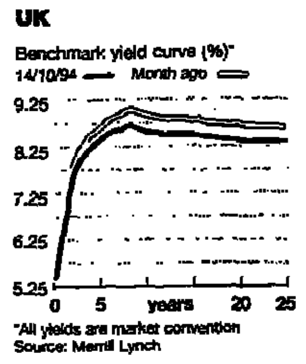
LONDON — Philip Coggan

Last week's subdued inflation figures enabled the gilts market to continue its recent rally, so traders are braced for some profit-taking this week.

The most important statistic of the week is probably Friday's first estimate of third-quarter gross domestic product growth. Most economists expect the recovery to have slowed down from the second quarter, but Mr Nigel Richardson, head of bond research at Yamaichi International (Europe), is plumping for a quarter-on-quarter rise of 1 per cent. He believes that this should not worry the gilt market, if growth is seen to be coming largely from exports.

Indications of the strength of consumer demand will come from the Confederation of British Industry's distributive trades survey – out tomorrow – and Thursday's retail sales.

The Bank of England will publish details of its coming auction tomorrow, with many traders expecting a five-year stock. The Bank took advantage of market strength to make two tap stock issues last week, and it was able to announce there would be no need for a November auction.



*All yields are market convention
Source: Merrill Lynch

Unless the numbers are particularly bad, it is not expected that tomorrow's public sector borrowing requirement figures for September will move the market, given the general consensus that the deficit is gradually falling.

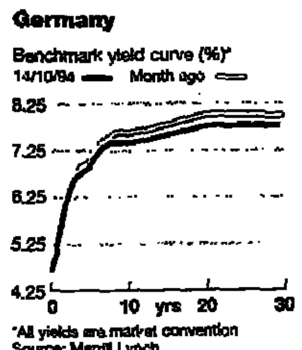
FRANKFURT — Andrew Fisher

Yesterday's German election took place against the background of an economic recovery that looks increasingly solid – the Bundesbank agrees with the government on that – and an inflation rate expected to ease from the current 3 per cent this year.

It is these economic fundamentals and the gradual slowdown of money supply growth which will determine the progress of the bond market, along with events in the US, once the vote's outcome has been digested.

The bond and stock markets rose last week, with 10-year bund yields easing towards 7.50 per cent, on the growing assumption that Chancellor Helmut Kohl's coalition government would be re-elected.

Earlier, however, investors were not so certain and the markets softened. The prospect of a Kohl victory and the continuation of deficit-reducing fiscal policies injected a new confidence into the market. Thus said Ms Alison Cottrell, international economist at Kidder, Peabody Securities: "If bond markets had votes, Mr Kohl – rightly or wrongly – would romp home."



*All yields are market convention
Source: Merrill Lynch

Even if he was not voted in again, she recommended investors to move up the yield curve, not jump off. The Bundesbank would see to it that any fiscal laxity in Bonn was met with stern monetary policies.

TOKYO — Emiko Terazono

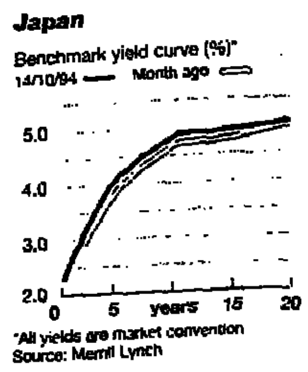
Favourable economic statistics and the Bank of Japan's manoeuvres on the money markets have increased expectations of a rise in short-term money market rates.

With the new reserve maintenance period starting today bond market investors will this week be focusing on the central bank's operations and the level of the overnight call rates. A rise in the call rate above the 2.25 per cent at which it closed last week, could increase upward pressure on short-term money market rates.

Expectations of higher domestic short-term rates have resulted in Japanese banks switching their fundraising from the certificate of deposit market to the Euroyen market.

Banks are wary of a further rise in CD rates, to which short-term prime rates (lending rates to first tier clients) are linked when demand for funds remain weak.

Meanwhile, institutional investors are reluctant to increase their holdings of long-term government bonds.



*All yields are market convention
Source: Merrill Lynch

Life assurers and other large investors are continuing to buy bank debentures because they are unlisted and investors are not required to disclose their positions at the end of the interim term.

This has resulted in rates on five-year bank debentures falling below those of government bonds with the same maturity.

Capital & Credit / **Richard Lapper**

Attitudes change on Latin America

The return last week of Argentina to the syndicated loan market marks a significant stage in Latin America's financial rehabilitation. Argentina secured a \$500m 18-month credit with a spread of 150 basis points above Libor on Tuesday.

The deal is one of the biggest by any Latin American government since the continent's debt crisis emerged in the early 1980s and reflects significant shift in the mood among bankers.

"There is a change in mind set," explains one banker in New York, who says financiers have been impressed by the approach of finance ministers such as Mr Domingo Cavallo of Argentina.

"It would have been unthinkable three or four years ago," explains Mr Peter West, economic adviser with West Merchant Bank in London.

Credit Suisse and Chemical Bank led the loan, which follows an increase in project finance and short-term trade lending to Latin America and a sharp rise in international equity flows towards the continent, where governments are increasingly adopting the liberal economic policies, pioneered by Chile, Mexico and Argentina.

So far this year some \$5.25bn has been lent to Latin American borrowers in 35 separate deals, according to figures by International Financing Review, the specialist publication.

Borrowers include public enterprises and companies – such as Pemex, Mexico's oil company – as well as banks and private companies.

Latin American borrowers have steadily increased issuance of new bonds, with \$12.6bn worth of new offerings in the nine months to the end of September.

Nevertheless, they find syndicated loans more attractive because the deals are flexible. Although front-end expenses can sometimes be more expensive, the terms of the loans can be rescheduled.

The Argentine transaction, which amounts to a vote of confidence for the three-year-old economic stabilisation plan introduced by the government of Mr Carlos Menem, was "remarkably easy to syndicate", said one financier.

"We have observed some enthusiasm for Latin American credits. Banks have emerged from the Brady era and are now prepared to look at sovereign exposures," he adds.

As well as Chemical and Credit Suisse, other international banks participating were Banco Santander, Dresdner Bank, Bank of Boston, UBS and ING, alongside a number of local banks.

Argentina borrowed money to cover revenue shortfalls prompted by delays in the privatisation of several gas distribution companies.

Mr West believes that there will be no massive rush back into the syndicated loan market but he expects that other "tailor-made" deals for Latin American borrowers could be in the offing.

Nevertheless, there are fears in some quarters that in their enthusiasm for lending to the new emerging markets, bankers could be opening themselves up to a new debt crisis.

In a recent note Mr Raphael Soifer, analyst with Brown Brothers Harriman & Co, in New York, points to a steady increase of aggressive commercial lending to Latin America and other less developed countries.

"Don't look now but LDC debt is back," he says, with the cross-border exposure of US banks to developing countries increasing by 33 per cent since 1990.

"As those of us who have followed the banking industry for a while can never forget, what began in the 1970s as ostensibly harmless, short-term 'balance of payments adjustment facilities' and interbank deposits, by the 1980s had developed into the full-blown LDC debt crisis," warns Mr Soifer.

Mr Michael Atkin, director for Latin America at the Institute of International Finance in Washington, concedes that Latin American indebtedness has increased, partly because the internal savings ratios of Latin American economies are still relatively low.

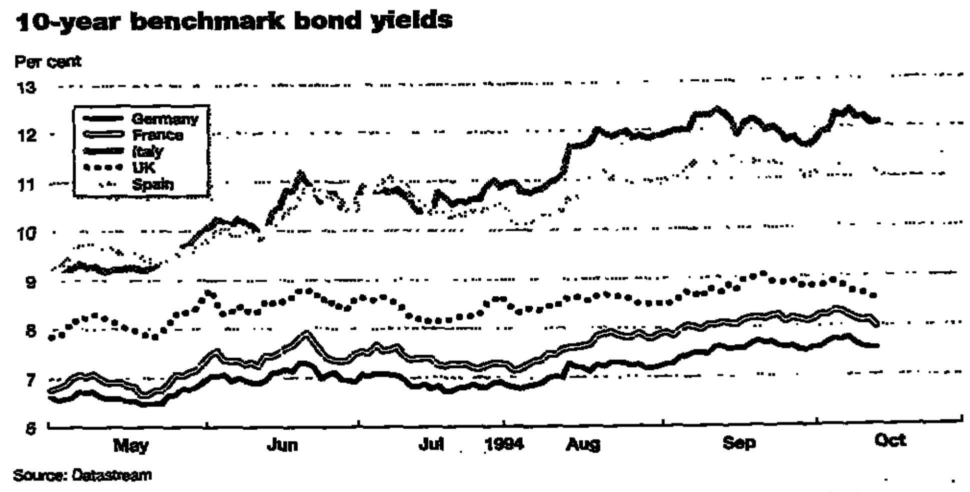
"It is certainly true that Latin American indebtedness is building up. They are importing a lot of capital," he explains.

The total debts of 16 Latin American economies monitored by the IIF amounted to \$529bn in 1994, almost double the \$274.5bn recorded shortly before the emergence of the debt crisis in 1981.

Debt now accounts for an even higher percentage of the region's exports than it did 13 years ago, at 264 per cent compared with 225 per cent. Nevertheless, he insists that "history is not repeating itself".

The continent's private sector is now bigger and more widely involved, economies are more open to international trade and competition and macroeconomic policies generally are more to the liking of lenders. Significantly, governments are not resorting to external debt to finance public spending, says Mr Atkin.

10-year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	4.00	1.75	4.50	6.40[1]	7.50	5.75[2]
Overnight	4.63	2.25	4.89	5.18	7.93	4.50
Three month	5.01	2.31	5.00	5.46	8.61	5.81
One year	6.04	2.75	5.53	6.23	9.87	6.93
Five year	7.28	4.13	6.91	7.60	12.11	8.39
Ten year	7.62	4.71	7.40	7.98	11.98	8.55

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES *(CBT) \$100,000 32nds of 100%*

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	99-00	99-11	+0-07	99-18	98-13	449,244	399,433
Mar	98-10	98-22	+0-08	98-27	97-25	2,087	26,496
Jun	97-20	98-02	+0-08	98-07	97-18	1,071	11,092

International / **William Dawkins**

Japanese flop sparks pricing rethink

Japan's finance ministry is rethinking how to price equity offerings, as the result of what could become a costly hitch to its latest privatisation, that of Japan Tobacco, the state monopoly cigarette maker.

The ministry is under fire from both Japanese and foreign securities houses over the second privatisation issue to go wrong since the introduction of tough new rules on the conduct of equity offerings at the end of the 1980s.

An embarrassed ministry announced on Friday that there were no buyers for more than 65 per cent of the 436,666 shares allotted to small investors in Japan Tobacco.

As a result, the ministry runs the risk of falling Y408bn short of the Y958bn (\$9.75bn) it had hoped to raise from the share issue. The ministry is offering a total of 666,666 shares to individuals and institutions, comprising a one-third stake in the company. At the issue price of Y1.438m (\$14,631) a share, Japan Tobacco is valued at Y2,876bn (\$29.3bn).

It is unlikely, in these circumstances, that other small investors will voluntarily take up many of the left-over shares, say brokers. Ministry officials will decide what to do on the results of a second attempt to allocate unwanted shares by lottery. The final reckoning will be on Thursday, when payments on those shares fall due.

The flop increases the likelihood that Japan Tobacco's share price will fall when trading starts a week later, on October 27, unless the finance ministry keeps the unwanted shares. If the ministry fails to step in, a heavy loss could be on the way for big investors.

That could destabilise an already weak equity market and guarantee a poor reception for future privatisation issues, like West Japan Railway early next year and another tranche of the already-privatised Nippon Telegraph and Telephone.

Japan's equity pricing system, to be fair, does serve the purpose for which it was designed. It stops companies on the way to the market from covertly handing out cheap shares to friends in high places, as was the case in the late 1980s Recruit shares for favours scandal, which provoked the rule change.

In drawing up the new rules for pricing shares, the finance ministry took its inspiration for the auction system it has used for many years to sell government bonds. The result produces a system very different from that normally used for international share sales.

One third of the shares to be issued are auctioned in advance to rich individuals and institutional investors. The rest are sold by lottery to the public, at the mid-price of bids made in the auction.

This drains off all the surplus institutional demand for the shares, before the issue even gets to the public, argue the system's critics, and ensures that the first few days' trading will be more likely to show a loss than in other international issues, which give advisers more scope to set the price at a level likely to stimulate the market.

Big investors must pay the price they bid in the pre-offer auction, even if they are unlucky enough to have bid above the mid-price. In Japan Tobacco's case, bids accepted by the finance ministry ranged from Y1.36m a share, up to Y2.11m, probably at the top end of total bids received. "This way, you get no after-market," complains one foreign broker.

A second problem is that the pre-offer auction risks setting a misleading price, in Japan Tobacco's case clearly higher than thousands of small investors will bear. It only reflects the valuation accorded to the shares by the biggest and richest one-third of investors, rather than the demand from all potential buyers.

Japan Tobacco is not the only example of a flotation to have hit trouble under this system. Japan Telecom, a private sector long distance telephone operator, was a high profile flop only last month, despite the fact Nomura Securities priced it at a discount to the auction mid-price. Mass selling orders for JR East, a privatisation issue, made the stock exchange's computers break down and hit the whole market last October.

Foreign lobbyists, like the European Business Council, have for years been urging the finance ministry to adopt something like the book-building system of pricing shares, used in most international equity issues. This would reduce the mathematical distortions of the Japanese system, it is argued.

The finance ministry does not usually cave in easily to outside pressure. But it has a clear self-interest in ensuring a smooth reception for future attempts to raise government revenue from privatisations, at a time when its tax revenues are short of target.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Hellenic Republic(a)‡	200	Nov.1998	(a1)	100.00	-	-	IBJ Asia
Cariplo, London Branch‡	150	Nov.1999	(b)	99.76R	-	-	Swiss Bank Corp.
Bayer USA	300	Oct.1999	7.75	99.479R	7.433	+42(7½%-99)	Deutsche Bank London
Toyota Motor Finance(Neths.)	200	Oct.1997	7.125	99.71R	7.380	+20(6½%-97)	CS First Boston
SmithKline Beecham Capital	200	Nov.1997	7.375	99.85R	7.236	+37½(6½-97)	SG Warburg Securities
County of Los Angeles(r,s)	1.365bn	-	-‡	-			Lehman Brothers Intl.
Aegon(e)§	600	Nov.2004	4⅞	100.00	-	-	Morgan Stanley Intl
Sainsbury	150	Nov.1997	7.375	99.79R	7.456	+39(6½%-97)	JP Morgan Securities
Bank Rakyat Indonesia(f)★‡	75	Nov.1999	(f1)	100.00	-	-	Sanwa Intl. Finance
FEN, Colombia(l)	150	Nov.1999	9.00‡	99.753R	9.06	+180(7⅛%-99)	JP Morgan Securities
BBL International(g)‡	125	undated	(g1)	98.875R	-	-	CS First Boston
Banco Safra(h)	100	Oct.2002	10⅛#	98.30R	10.32	+342(6½%-97)	Swiss Bank Corp.
Citicorp(q)‡	250	Nov.1998	(m1)	99.87R	-	-	Citibank International
YEN							
Citicorp(s)★	15bn	Jan.1998	4.00	100.00	-	-	Merrill Lynch Intl.
Roche Financial Mgmt.(j)ф	100bn	May.2002	1.00	100.00	-	-	Swiss Bank Corp.
Kingdom of Belgium	75bn	Nov.2004	4.875	99.34R	4.960	+15(4.6%-04)	Nikko Europe
International Finance Corp.★	20bn	Nov.1999	zero	82.10	4.023	-	Norinchukin Intl.
STERLING							
General Electric Capl.Corp.	100	Nov.1998	8.25	99.985R	8.258	+20(10%-98)	HSBC/Paribas Cp.Mkts.
Ford Credit Europe	100	Nov.1997	8.625	99.705R	8.741	+55(6¾%-97)	HSBC Markets
Birmingham Midshires B/S(k)‡	150	Nov.1999	(k1)	99.70R	-	-	UBS/ SG Warburg Secs.
D-MARKS							
Statkraft	300	Nov.1999	7.50	99.84R	7.540	+35(6¾%-99)	Deutsche Bank
Nafinsa, Gd. Cayman Branch‡	300	Oct.1998	(m)	100.00	-	-	Swiss Bank Corp Frt.
FRENCH FRANCS							
Philips Electronics	1bn	Nov.2004	8.75	99.31R	8.857	+70(7¾%-04)	Crédit Lyonnais
Colinoga(l)	1bn	Dec.1997	7.875	100.435R	7.70	+40(9.7%-97)	Soc.Gén./ SBC France
Compagnie Générale des Eaux	1bn	Nov.1999	8.00	100.08R	7.980	+32(8⅛%-99)	CCF
Crédit Local de France	3bn	Nov.1997	7.375	99.91R	7.410	+8(9.7%-97)	BNP
ITALIAN LIRE							
European Investment Bk.(d)	400bn	Jul.1998	10.15	97.995	10.80	-	BCI/Crplo/JP Mgn/Paolo
Crédit Local de France	150bn	Nov.1997	11.30	101.315	10.76	-	Credito Italiano
Iris No.2, Tranche 1(p)	310bn	Oct.1999	(p1)	99.81R	-	-	Paribas Capital Markets
CANADIAN DOLLARS							
European Investment Bank	150	Nov.1997	8.00	99.58R	8.163	+10(l)	Goldman Sachs Intl.
Rabobank Nederland	100	Nov.1997	8.125	99.794R	8.205	+10(l)	ScotiaMcLeod
Bayerische Landesbank	125	Nov.1998	8.375	99.625R	8.489	+10(l)	Wood Gundy
GUILDERS							
ABN Amro Bank(c)	300	undated	8.50	99.80R	8.531	+85(7¼%-04)	ABN Amro Bank
KfW International Finance	500	Nov.2004	7.625	99.75R	7.662	+24(7¼%-04)	ABN Amro Bank
AUSTRALIAN DOLLARS							
SBC Australia	100	Nov.1998	9.50	101.197	9.129	-	Swiss Bank Corp.
National Australia Bank	100	Nov.1997	9.75	101.25	9.254	-	Hambros Bank
Queensland Treasury Corp.(n)	100	Nov.1996	8.20	100.00	8.20	-	Nikko Europe
Kredietbank Intl. Finance	75	Dec.1999	10.00	101.80	9.582	-	Macquarie Bank
SWISS FRANCS							
BLFA	100	Nov.1999	5.50	102.25	4.981	-	Swiss Bank Corp.
Exim Bank of Japan	200	Nov.1999	5.50	102.50	4.924	-	UBS
Electricité de France	150	Nov.1998	5.375	102.375	4.710	-	Credit Suisse
Landwirt. Rentenbank(g)	100	Nov.1998	5.375	102.00	4.81	-	Banca del Gottardo
PESETAS							
Eurofima	20bn	Nov.2014	11.00	100.00	11.00	-	Banco Bilbao Vizcaya
LUXEMBOURG FRANCS							
Great Belt	2bn	Dec.2001	8.375	102.50	7.897	-	BIL
Cregem Intl. Bank(s)★	2bn	Jul.1998	8.125	102.65	7.30	-	Cregem Intl. Bank
SBRD(t)	2bn	Feb.2000	8.00	102.75	7.33	-	BGL
Daimler-Benz Intl.Finance	2bn	Dec.2000	8.125	102.20	7.654	-	BIL
Rabobank Nederland(u,o)	3bn	Feb.200	8.125	102.65	7.46	-	BGL

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. §Convertible. ‡Floating rate note. фWith equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Puttable in Nov.1997 & 98 at par. a1) 6-mth Libor +80bp. b) 3-mth Libor +12½bp. c) Callable on 16/11/04 and every 10 yrs thereafter. Coupon is reset every 10 yrs at 85bp over DSL index. d) Fungible with L1400bn. Plus 125 days accrued. e) Conv price: Fl120. FX: 1.7280Fl/S. Final redemption price: 138.9%. Callable from 1/11/01. f) Callable and puttable in Nov 97 at par. Puttable if issuer ceases to be fully owned subsidiary of govt. f1) 6-mth Libor +110bp. g) Callable on coupon dates from Nov.01, and every 5 yrs after partial call, at par. g1) 3-mth Libor +75bp to Nov.01 and +250bp thereafter. h) Callable & puttable on 28/10/97 at 97.50%. i) Over interpolated yield. j) Denom: Y1m +68 wrts. 100 wrts delivered on 15/6/98 entitle holder, at issuer's option, to either a genusschein, genusschein cash equivalent or SF7,100. Short 1st & long last coupons. k) Callable on coupon dates after 4 yrs at par. k1) 3-mth Libor +⅛%. l) Long 1st coupon. m) 3-mth Libor +64bp. n) Long last coupon. o) Increased from LFr1½bn: 1st LFr1½bn launched on 6/10/94 at 102.35%. p) Tranche 2: L65bn, 13/10/00 maturity, 3-mth Libor +40bp, 99.91R. Tranche 3: L45bn, 12/10/00 maturity, 3-mth Libor +40bp, 99.75R. p1) 3-mth Libor +30bp. q) Callable on any coupon date from Nov.97 at par. q1) 3-mth Libor +20bp. r) Multi tranche global. 11 coupon bearing bonds with maturities running from 30/6/96-08 and 4 zero coupon bonds with maturities running from 30/6/07-10. s) Short 1st coupon. Note: Yields are calculated on ISMA basis.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 14 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Oct 14 / Frs.)

[illegible]

DENMARK (Oct 14 / Kr)

[illegible]

FINLAND (Oct 14 / Mk)

[illegible]

FRANCE (Oct 14 / Frs.)

[illegible]

GERMANY (Oct 14 / Dm.)

[illegible]

ITALY (Oct 14 / Lira)

[illegible]

NETHERLANDS (Oct 14 / Fls.)

[illegible]

NORWAY (Oct 14 / Kroner)

[illegible]

SPAIN (Oct 14 / Pts.)

[illegible]

SWEDEN (Oct 14 / Kronor)

[illegible]

SWITZERLAND (Oct 14 / Frs.)

[illegible]

PACIFIC

JAPAN (Oct 14 / Yen)

[illegible]

HONG KONG (Oct 14 / H.K.$)

[illegible]

MALAYSIA (Oct 14 / MYR)

[illegible]

SINGAPORE (Oct 14 / S$)

[illegible]

AUSTRALIA (Oct 14 / Aus$)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Oct 14 / Can $) 4 pm close

[illegible]

MONTREAL (Oct 14 / Can $) 4 pm close

[illegible]

AFRICA

SOUTH AFRICA (Oct 14 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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TOKYO - MOST ACTIVE STOCKS: Friday, October 14, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Sumitomo Mtl Ind	11.6m	356	+6	Kawasaki Steel	5.9m	448	-4
Nippon Steel	11.0m	388	-7	Nisshin Steel	5.4m	495	+10
Pacific Metals	9.9m	504	+34	Kawasaki Kisen	5.1m	410	-3
Mitsubishi Hvy	6.7m	794		Itochu	4.9m	752	+10
Mitsubishi Elec	6.2m	729	-1	Mitsubishi Chem	4.7m	583	+7

INDICES

	Oct 14	Oct 13	Oct 12	1994 High		1994 Low	
Argentina							
General (29/12/77)	20109.62	20206.93	19930.44	25470.40	16/2	17756.90	20/4
Australia							
All Ordinaries (1/1/80)	2006.0	2024.0	2002.6	2340.60	3/2	1957.40	27/6
All Mining (1/1/80)	1050.4	1051.6	1052.9	1138.10	3/2	804.60	5/5
Austria							
Credit Aktien (30/12/84)	393.56	392.83	395.43	460.08	2/2	390.21	6/10
Traded Index (2/1/91)	1069.43	1067.64	1065.33	1222.25	1/2	1011.38	6/6
Belgium							
BEL20 (1/1/91)	1373.66	1379.60	1365.48	1542.65	9/2	1336.39	7/10
Brazil							
Bovespa (29/12/83)	40033.0	49446.0	(c)	55110.00	13/9	3800.90	7/1
Canada							
Metals & Minls (1975)	4196.97	4113.59	4118.73	4250.59	19/9	3299.08	20/4
Composite (1975)	4352.40	4343.37	4355.03	4609.90	23/3	3959.90	24/6
Portfolio (4/1/83)	2072.72	2075.97	2080.66	2182.69	1/2	1868.48	28/6
Chile							
IGPA Gen (31/12/80)	5571.6	5519.31	(c)	5571.60	14/10	3901.20	4/4
Denmark							
Copenhagen SE (3/1/83)	346.09	341.99	345.44	415.79	2/2	339.11	7/10
Finland							
HEX General (28/12/90)	1861.3	1872.0	1870.1	1972.00	4/2	1601.10	3/1
France							
SBF 250 (31/12/90)	1238.05	1239.05	1239.52	1565.20	2/2	1238.08	5/10
CAC 40 (31/12/87)	1953.02	1955.69	1918.14	2355.93	2/2	1833.72	6/10
Germany							
FAZ Aktien (31/12/58)	785.23	784.35	781.72	858.27	18/5	742.04	5/10
Commerzbank (1/12/53)	2251.2	2256.9	2228.4	2465.50	2/5	2116.30	5/10
DAX (30/12/87)	2105.73	2097.69	2077.57	2271.11	16/5	1980.58	7/10
Greece							
Athens SE (31/12/80)	945.36	955.03	957.93	1194.58	13/1	806.67	25/5
Hong Kong							
Hang Seng (31/7/64)	9550.53	(c)	9632.75	12201.09	4/1	8369.44	4/5
India							
BSE Sens (1979)	4336.43	(c)	4401.83	4597.99	27/9	3454.00	5/1
Indonesia							
Jakarta Comp (10/8/82)	510.34	507.18	511.42	612.39	5/1	449.72	13/7
Ireland							
ISEQ Overall (4/1/88)	1770.13	1761.65	1552.55	2082.18	20/1	1694.14	1/7
Italy							
Banca Comm Ital (1972)	634.54	636.32	629.68	817.17	10/5	588.85	10/1
MIB General (4/1/93)	1029.0	1021.0	1030.0	1319.00	10/5	944.00	10/1
Japan							
Nikkei 225 (16/5/49)	19964.29	20148.63	20093.72	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)	294.15	294.15	293.22	311.71	13/6	258.22	4/1
Topix (4/1/68)	1593.03	1606.16	1600.60	1712.73	13/6	1445.97	4/1
2nd Section (4/1/68)	2260.56	2261.40	2254.01	2542.65	6/7	1873.33	4/1
Malaysia							
KLSE Comp (4/4/86)	1128.16	1135.67	1137.00	1314.46	5/1	928.33	4/4
Mexico							
IPC (Nov 1978)	(u)	2759.61	2740.62	2881.17	8/2	1957.33	20/4
Netherland							
CBS TtlRtnGen(End 83)	436.0	436.0	431.5	464.90	31/1	408.30	21/6
CBS All Shr (End 83)	273.8	273.8	271.0	294.80	31/1	257.90	21/6
New Zealand							
Cap. 40 (1/7/86)	2053.28	2043.71	2056.80	2439.84	3/2	1948.51	11/7
Norway							
Oslo SE(Ind)(2/1/83)	1083.89	1073.61	1061.94	1211.10	28/2	980.91	21/6
Philippines							
Manila Comp (2/1/85)	2999.93	2990.75	2970.46	3308.37	4/1	2507.83	9/3
Portugal							
BTA (1977)	2883.8	2887.1	2878.4	3226.60	18/2	2812.80	20/6
Singapore							
SES All-S'pore(2/4/75)	582.51	575.25	579.63	641.81	4/1	523.28	4/4
South Africa							
JSE Gold (28/9/78)	2293.0♥	2301.0	2282.0	2534.00	7/9	1749.00	14/2
JSE Ind (28/9/78)	6355.0♥	6324.0	6261.0	6757.00	15/6	5446.00	19/1
South Korea							
KoreaCmpEx(4/1/80)**	1103.37	1096.54	1089.66	1103.37	14/10	855.37	2/4
Spain							
Madrid SE (30/12/85)	301.50	303.18	(c)	358.31	31/1	290.07	5/10
Sweden							
AffarsvardenGen (1/2/37)	1454.9	1452.1	1435.2	1803.90	31/1	1334.70	6/7
Switzerland							
Swiss Bk Ind (31/12/58)	1203.75	1209.36	1201.25	1423.34	31/1	1157.97	18/7
SBC General (1/4/87)	921.16	923.19	914.55	1083.28	31/1	888.07	5/10
Taiwan							
WeightedPr (30/6/66)**	6667.77	6626.39	6495.78	7191.13	30/9	5194.63	19/3
Thailand							
Bangkok SET (30/4/75)	1498.55	1475.08	1470.90	1753.73	4/1	1196.59	4/4
Turkey							
Istanbul Comp.(Jan 1986)	27069.8	26750.1	26847.4	28883.60	13/1	12980.70	24/3
WORLD							
MS Capital Int (1/1/70)$	636.1*	634.2	630.7	644.00	2/9	591.60	4/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	1350.17	1351.18	1333.83	1540.19	31/1	1288.48	5/10
Euro Top-100 (26/6/90)	1191.85	1198.16	1181.19	1311.01	2/2	1138.48	5/10
JCapelDrgns (31/12/88)	(u)	337.18	336.54	395.19	5/1	290.28	21/3
Barings Emerg.(7/1/92)	138.82	187.19	185.61	191.78	26/9	141.85	21/4

** Sat Oct 8: Taiwan Weighted Price 6214.48; Korea Comp Ex 1061.98. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen, MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. $$ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index. Oct 14 - 2118.52 +10.44

CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett.Price	Change	High	Low	Est. vol.	Open int.
Oct	1945.0	1967.0	-	1958.0	1938.0	19,400	27,071
Nov	1956.0	1975.0	-	1961.0	1952.5	218	891
Dec	1965.5	1984.5	-	1975.0	1954.5	715	25,863

Open interest figures for previous day.

US INDICES

Dow Jones	Oct 14	Oct 13	Oct 12	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3910.47	3889.95	3875.15	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	96.45	96.47	96.21	105.61 (21/1)	95.91 (7/10)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1496.48	1487.63	1490.19	1862.29 (2/2)	1438.50 (6/10)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	182.64	182.11	180.20	227.08 (3/1)	175.65 (20/9)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3927.97 (3944.12) Low 3862.03 (3878.18) (Theoretical♦)
Day's high 3912.49 (3927.63) Low 3878.51 (3875.15) (Actual♦)

Standard and Poors	Oct 14	Oct 13	Oct 12	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	469.10	467.77	465.47	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	556.98	555.62	553.36	560.83 (15/9)	510.05 (21/4)	560.83 (15/9/94)	3.62 (21/6/32)
Financial	43.90	43.29	43.02	48.94 (14/8)	41.39 (4/4)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	257.99	257.43	256.35	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	458.50	458.57	453.50	487.89 (2/2)	422.67 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	767.08	767.89	767.00	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

RATIOS

	Oct 7	Sep 30	Sep 23	Year ago
Dow Jones Ind. Div. Yield	2.79	2.76	2.76	2.84
	Oct 12	Oct 5	Sep 28	Year ago
S & P Ind. Div. yield	2.37	2.43	2.39	2.47
S & P Ind. P/E ratio	20.91	20.33	20.78	28.00

STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	469.10	471.25	+2.10	471.35	467.00	87,490	216,207
Mar	472.80	474.45	+2.20	474.60	470.20	885	6,965
Jun	475.00	478.15	+2.20	478.20	473.90	10	2,579

Open interest figures are for previous day.

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Loco	3,660,000	17¾	+1⅛
Micron	3,296,500	34⅞	+1⅛
Adv Micro	2,537,800	22¾	-½
Merck	2,507,900	36¼	-½
Castech	2,490,000	15½	+1
Glaxo	2,448,000	19½	+¾
Ford Motor	2,345,700	29¼	+½
IBM	2,036,700	73	-¾
Telex Chile	1,841,600	20½	-⅞
McKesson	1,834,300	96¼	-5⅞

TRADING ACTIVITY

● Volume (million)	Oct 14	Oct 13	Oct 12
New York SE	251.697	337.905	269.544
Amex	19.386	19.361	15.128
NASDAQ	(u)	346.302	305.755
NYSE			
Issues Traded	2,851	2,874	2,853
Rises	1,020	1,314	999
Falls	1,060	877	1,107
Unchanged	771	683	747
New Highs	38	74	58
New Lows	65	49	89

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Oct 14		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.0398	-0.1221	326 - 469	17.3148	17.0316	17.0354	0.3	17.0238	0.4	-	-	115.3
Belgium	(BFr)	49.8772	-0.3085	359 - 184	50.0760	49.8070	49.8972	-0.5	49.8022	0.6	49.5972	0.6	117.2
Denmark	(DKr)	9.4839	-0.085	887 - 990	9.5353	9.4874	9.4891	0.6	9.5079	-0.8	9.5374	-0.5	117.0
Finland	(FM)	7.4875	-0.0548	751 - 968	7.5310	7.4780	-	-	-	-	-	-	88.1
France	(FFr)	8.2986	-0.0535	938 - 993	8.3358	8.2934	8.2972	-0.1	8.2924	0.2	8.2478	0.6	110.6
Germany	(DM)	2.4207	-0.0179	198 - 215	2.4324	2.4189	2.4194	0.6	2.4165	0.7	2.3889	1.3	126.7
Greece	(Dr)	371.451	-1.385	142 - 760	374.499	369.388	-	-	-	-	-	-	-
Ireland	(I£)	1.0099	-0.0007	092 - 105	1.0113	1.0058	1.0097	0.2	1.0093	0.2	1.0112	-0.1	105.2
Italy	(L)	2468.77	-8.89	751 - 003	2477.08	2466.83	2474.57	-2.8	2487.17	-3.0	2540.52	-2.9	74.8
Luxembourg	(LFr)	49.8772	-0.3085	359 - 184	50.0760	49.8070	49.8972	-0.5	49.8022	0.6	49.5972	0.6	117.2
Netherlands	(Fl)	2.7115	-0.0195	108 - 124	2.7239	2.7101	2.7103	0.6	2.7072	0.6	2.6785	1.2	121.2
Norway	(NKr)	10.5551	-0.0871	515 - 587	10.6099	10.5501	10.5546	0.1	10.5579	-0.1	10.5567	0.0	88.5
Portugal	(Es)	247.969	-1.832	842 - 095	249.633	247.808	249.689	-8.4	252.879	-7.9	-	-	-
Spain	(Pta)	201.261	-1.458	111 - 410	202.517	201.102	201.641	-2.3	202.326	-2.1	205.331	-2.0	86.0
Sweden	(SKr)	11.6481	-0.0445	387 - 575	11.6931	11.6154	11.6691	-2.2	11.7161	-2.3	11.9041	-2.2	75.6
Switzerland	(SFr)	2.0121	-0.0205	109 - 133	2.0281	2.0100	2.009	1.8	2.0034	1.7	1.9672	2.2	123.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	79.8
Ecu	-	1.2711	-0.0071	703 - 718	1.2770	1.2703	1.2708	0.1	1.2708	0.1	1.2679	0.2	-
SDR†	-	0.925592	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5896	+0.0118	892 - 899	1.5932	1.5871	-	-	-	-	-	-	-
Brazil	(R)	1.3162	-0.0041	152 - 172	1.3223	1.3145	-	-	-	-	-	-	-
Canada	(C$)	2.1538	+0.0234	530 - 546	2.1661	2.1482	2.1531	0.4	2.1522	0.3	2.1551	-0.1	87.1
Mexico	(New Peso)	5.4392	+0.0372	342 - 442	5.4478	5.4336	-	-	-	-	-	-	-
USA	($)	1.5925	+0.0113	922 - 928	1.5962	1.5900	1.5919	0.5	1.5916	0.2	1.5822	0.6	61.6
Pacific/Middle East/Africa													
Australia	(A$)	2.1648	+0.0208	636 - 659	2.1708	2.1609	2.1647	0.0	2.1661	-0.2	2.1843	-0.9	-
Hong Kong	(HK$)	12.3061	+0.0882	029 - 092	12.3338	12.2875	12.3022	0.4	12.3011	0.2	12.3092	0.0	-
India	(Rs)	49.9807	+0.362	433 - 781	50.0890	49.8820	-	-	-	-	-	-	-
Japan	(Y)	156.519	-1.462	450 - 588	158.360	156.440	156.094	3.3	155.134	3.5	150.249	4.0	188.6
Malaysia	(M$)	4.0792	+0.0133	776 - 808	4.0826	4.0723	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.6260	+0.0151	244 - 275	2.6318	2.6225	2.6299	-1.8	2.6377	-1.8	2.66	-1.3	-
Philippines	(Peso)	40.6885	+0.211	419 - 350	40.9360	40.1355	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9743	+0.0424	723 - 762	5.9875	5.9657	-	-	-	-	-	-	-
Singapore	(S$)	2.3514	+0.0078	501 - 526	2.3583	2.3488	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.6886	+0.0247	865 - 911	5.7129	5.6831	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.5213	+0.0385	041 - 384	6.5632	6.5094	-	-	-	-	-	-	-
South Korea	(Won)	1271.93	+8.04	137 - 249	1274.57	1270.25	-	-	-	-	-	-	-
Taiwan	(T$)	41.6547	+0.276	424 - 669	41.7470	41.5938	-	-	-	-	-	-	-
Thailand	(Bt)	39.7807	+0.1887	572 - 041	39.8980	39.7340	-	-	-	-	-	-	-

†SDR rates for Oct 13. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 14		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria	(Sch)	10.7000	-0.154	975 - 025	10.7410	10.6850	10.7	0.0	10.6998	0.0	10.625	0.7	104.4
Belgium	(BFr)	31.3200	-0.42	000 - 400	31.4150	31.2500	31.325	-0.2	31.35	-0.4	31.275	0.1	106.1
Denmark	(DKr)	5.9616	-0.0839	595 - 637	5.9865	5.9555	5.966	-0.9	5.9751	-0.9	6.0316	-1.2	105.3
Finland	(FM)	4.7017	-0.0683	967 - 067	4.7295	4.6965	4.7024	-0.2	4.699	0.2	4.7082	-0.2	82.4
France	(FFr)	5.2098	-0.0712	090 - 105	5.2300	5.2030	5.2114	-0.4	5.2103	0.0	5.2128	-0.1	106.0
Germany	(D)	1.5201	-0.0222	198 - 203	1.5270	1.5185	1.5199	0.2	1.5189	0.5	1.5099	0.7	107.2
Greece	(Dr)	233.250	-2.55	100 - 400	235.270	231.910	233.545	-1.5	234.125	-1.5	236.325	-1.3	68.9
Ireland	(I£)	1.5770	+0.0124	762 - 777	1.5852	1.5743	1.5769	0.0	1.5771	0.0	1.564	0.8	-
Italy	(L)	1550.25	-18.75	975 - 075	1555.75	1547.91	1554.5	-3.3	1562.75	-3.2	1605.75	-3.6	75.4
Luxembourg	(LFr)	31.3200	-0.42	000 - 400	31.4150	31.2500	31.325	-0.2	31.35	-0.4	31.275	0.1	106.1
Netherlands	(Fl)	1.7027	-0.0246	024 - 029	1.7101	1.7009	1.7029	-0.1	1.701	0.4	1.6929	0.6	105.9
Norway	(NKr)	6.6280	-0.09	270 - 290	6.6645	6.6185	6.6317	-0.7	6.6495	-1.3	6.703	-1.1	96.6
Portugal	(Es)	155.710	-2.15	660 - 760	156.250	155.550	156.385	-5.2	157.61	-4.9	161.96	-4.0	94.9
Spain	(Pta)	126.380	-1.83	310 - 450	126.940	126.250	126.665	-2.7	127.125	-2.4	129.78	-2.7	81.0
Sweden	(SKr)	7.3144	-0.0806	098 - 189	7.3466	7.2893	7.3292	-2.4	7.3619	-2.6	7.5269	-2.9	81.2
Switzerland	(SFr)	1.2635	-0.022	630 - 640	1.2716	1.2620	1.2621	1.4	1.2588	1.5	1.2434	1.6	108.3
UK	(£)	1.5925	+0.0113	922 - 928	1.5962	1.5900	1.5919	0.5	1.5916	0.2	1.5822	0.6	88.3
Ecu	-	1.2529	+0.0159	524 - 534	1.2550	1.2497	1.2523	0.6	1.2519	0.3	1.2479	0.4	-
SDR†	-	1.46512	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9982	+0.0003	981 - 982	0.9982	0.9978	-	-	-	-	-	-	-
Brazil	(R)	0.8265	-0.0085	260 - 270	0.8290	0.8260	-	-	-	-	-	-	-
Canada	(C$)	1.3525	+0.0051	522 - 527	1.3535	1.3505	1.3524	0.0	1.3528	-0.1	1.3605	-0.6	84.4
Mexico	(New Peso)	3.4155	-0.001	130 - 180	3.4180	3.4130	3.4165	-0.4	3.4183	-0.3	3.4257	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	95.8
Pacific/Middle East/Africa													
Australia	(A$)	1.3594	+0.0034	589 - 598	1.3618	1.3585	1.3597	-0.2	1.3604	-0.3	1.3677	-0.6	86.5
Hong Kong	(HK$)	7.7275	+0.0003	270 - 280	7.7280	7.7270	7.7273	0.0	7.728	0.0	7.743	-0.2	-
India	(Rs)	31.3725	+0.0037	675 - 775	31.3775	31.3675	31.4575	-3.3	31.6025	-2.9	-	-	-
Japan	(Y)	98.2850	-1.63	600 - 100	99.4100	98.2600	98.055	2.8	97.475	3.3	94.96	3.4	148.0
Malaysia	(M$)	2.5615	-0.01	610 - 620	2.5685	2.5580	2.5523	4.3	2.541	3.2	2.6145	-2.1	-
New Zealand	(NZ$)	1.6490	-0.0023	483 - 496	1.6502	1.6483	1.65	-0.7	1.6518	-0.7	1.6571	-0.5	-
Philippines	(Peso)	25.5500	-0.05	000 - 000	25.8000	25.4000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7515	-0.0002	510 - 520	3.7520	3.7510	3.7528	-0.4	3.7569	-0.6	3.7755	-0.6	-
Singapore	(S$)	1.4765	-0.0057	760 - 770	1.4796	1.4756	1.4752	1.1	1.4733	0.9	1.4665	0.7	-
S Africa (Com.)	(R)	3.5723	-0.01	715 - 730	3.5769	3.5703	3.5878	-5.2	3.6161	-4.9	3.6926	-3.4	-
S Africa (Fin.)	(R)	4.0950	-0.005	850 - 050	4.1200	4.0850	4.1287	-9.9	4.1875	-9.0	-	-	-
South Korea	(Won)	798.700	-0.85	500 - 900	799.200	798.500	801.7	-4.5	805.2	-3.3	823.7	-3.1	-
Taiwan	(T$)	26.1568	-0.0132	540 - 595	26.1650	25.1540	26.1768	-0.9	26.2168	-0.9	-	-	-
Thailand	(Bt)	24.9800	-0.06	700 - 900	25.0000	24.9700	25.0525	-3.5	25.18	-3.2	25.66	-2.7	-

†SDR rate for Oct 13. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 13. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

October 14	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4⅞	4⅞	5¼	5⅝	6⅜	7.40	4.50	-
week ago	4⅞	4⅞	5¼	5⅞	6⅜	7.40	4.50	-
France	5⅜	5⅜	5⅝	5⅞	6¼	5.00	-	6.75
week ago	5⅜	5⅜	5¾	6	6½	5.00	-	6.75
Germany	4.85	4.95	5.15	5.30	5.65	6.00	4.50	4.85
week ago	4.85	4.95	5.20	5.30	5.75	6.00	4.50	4.85
Ireland	4¾	5⅛	5½	6¼	7¼	-	-	6.25
week ago	4⅝	5⅛	6⅛	6⅝	7⅝	-	-	6.25
Italy	8⅜	8⅜	8¾	9¼	10⅛	-	7.50	8.20
week ago	8⅜	8⅜	8⅞	9⅛	10⅛	-	7.50	8.20
Netherlands	4.84	4.96	5.18	5.32	5.76	-	5.25	-
week ago	4.84	4.96	5.24	5.38	5.84	-	5.25	-
Switzerland	2⅞	3⅞	4⅛	4⅜	4⅞	6.625	3.50	-
week ago	3⅞	3⅞	4¼	4⅜	4¾	6.625	3.50	-
US	4⅞	5	5⅜	5⅞	6⅛	-	4.00	-
week ago	4⅞	5	5⅞	5⅞	6⅛	-	4.00	-
Japan	2¼	2¼	2⅜	2½	2⅞	-	1.75	-
week ago	2⅛	2¼	2¼	2⅜	2⅝	-	1.75	-
$ LIBOR FT London								
Interbank Fixing	-	5⅛	5⅝	5⅞	6⅜	-	-	-
week ago	-	5⅛	5⅞	5⅞	6⅛	-	-	-
US Dollar CDs	-	4.89	5.27	5.57	6.13	-	-	-
week ago	-	4.89	5.40	5.70	6.27	-	-	-
SDR Linked Ds	-	3⅝	3⅞	3⅞	4	-	-	-
week ago	-	3⅝	3⅞	3⅞	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 5⅞; 3 mths: 5⅞; 6 mths: 6⅛; 1 year: 6⅞. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster. Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 14	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4$\frac{13}{16}$ - 4$\frac{11}{16}$	4$\frac{13}{16}$ - 4$\frac{11}{16}$	4$\frac{15}{16}$ - 4$\frac{13}{16}$	5¼ - 5⅛	5⅝ - 5½	[illegible]
Danish Krone	5¾ - 5½	5¾ - 5½	5⅞ - 5⅝	6½ - 6¼	7 - 6¾	[illegible]
D-Mark	4$\frac{15}{16}$ - 4$\frac{13}{16}$	4⅞ - 4¾	4$\frac{15}{16}$ - 4$\frac{13}{16}$	5$\frac{3}{16}$ - 5$\frac{1}{16}$	5$\frac{7}{16}$ - 5$\frac{5}{16}$	[illegible]
Dutch Guilder	4$\frac{13}{16}$ - 4$\frac{11}{16}$	4$\frac{15}{16}$ - 4$\frac{13}{16}$	4$\frac{15}{16}$ - 4$\frac{13}{16}$	5$\frac{3}{16}$ - 5$\frac{1}{16}$	5⅜ - 5¼	[illegible]
French Franc	5⅜ - 5¼	5$\frac{7}{16}$ - 5$\frac{5}{16}$	5$\frac{7}{16}$ - 5$\frac{5}{16}$	5⅝ - 5½	5$\frac{15}{16}$ - 5$\frac{13}{16}$	[illegible]
Portuguese Esc.	9$\frac{5}{16}$ - 9$\frac{1}{16}$	9½ - 9	9⅞ - 9⅝	10$\frac{7}{16}$ - 10$\frac{3}{16}$	10⅝ - 10⅜	[illegible]
Spanish Peseta	7$\frac{9}{16}$ - 7⅜	7$\frac{9}{16}$ - 7⅜	7$\frac{9}{16}$ - 7$\frac{7}{16}$	7⅞ - 7⅝	8⅜ - 8⅛	[illegible]
Sterling	5⅝ - 5½	5½ - 5⅜	5½ - 5$\frac{7}{16}$	5⅞ - 5¾	6$\frac{5}{16}$ - 6$\frac{3}{16}$	[illegible]
Swiss Franc	3½ - 3¼	3⅝ - 3½	3$\frac{13}{16}$ - 3$\frac{11}{16}$	4⅛ - 4	4¼ - 4⅛	[illegible]
Can. Dollar	4$\frac{13}{16}$ - 4¾	4$\frac{13}{16}$ - 4¾	5$\frac{1}{16}$ - 4$\frac{15}{16}$	5½ - 5⅜	6⅛ - 6	[illegible]
US Dollar	4¾ - 4⅝	4$\frac{15}{16}$ - 4$\frac{13}{16}$	5$\frac{1}{16}$ - 4$\frac{15}{16}$	5⅝ - 5½	5⅞ - 5¾	[illegible]
Italian Lira	9 - 7½	8⅜ - 8⅛	8⅜ - 8¼	8$\frac{13}{16}$ - 8$\frac{11}{16}$	9$\frac{5}{16}$ - 9$\frac{3}{16}$	[illegible]
Yen	2¼ - 2$\frac{1}{16}$	2$\frac{5}{16}$ - 2¼	2$\frac{5}{16}$ - 2¼	2⅜ - 2¼	2½ - 2$\frac{7}{16}$	[illegible]
Asian $Sing	2 - 1⅞	2 - 1⅞	2¾ - 2⅝	3⅜ - 3¼	3$\frac{13}{16}$ - 3$\frac{11}{16}$	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.07	94.13	+0.06	94.16	94.00	167,748	447,581
Mar	93.69	93.74	+0.04	93.79	93.64	172,833	394,138
Jun	93.29	93.35	+0.06	93.39	93.21	76,965	297,581

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.65	94.69	+0.04	94.73	94.58	3,058	18,400
Mar	94.19	94.26	+0.04	94.32	94.19	1,113	8,992
Jun	93.86	93.87	+0.03	93.89	93.82	760	2,743

All Open Interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 14		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.04	16.64	4.853	2.025	4949	5.436	21.16	497.1	403.4	23.34	4.034	2.005	4.317	3.194	313.8	2.549
Denmark	(DKr)	52.53	10	8.739	2.549	1.064	2600	2.856	11.11	261.1	211.9	12.26	2.119	1.053	2.268	1.678	164.9	1.339
France	(FFr)	60.11	11.44	10	2.917	1.217	2975	3.268	12.72	298.8	242.5	14.03	2.425	1.205	2.595	1.920	188.6	1.532
Germany	(DM)	20.61	3.923	3.428	1	0.417	1020	1.120	4.360	102.4	83.14	4.810	0.831	0.413	0.890	0.658	64.67	0.525
Ireland	(I£)	49.38	9.399	8.214	2.396	1	2444	2.684	10.45	245.4	199.2	11.52	1.992	0.990	2.132	1.577	155.0	1.258
Italy	(L)	2.021	0.385	0.336	0.098	0.041	100.	0.110	0.427	10.04	8.152	0.472	0.082	0.041	0.087	0.065	6.341	0.051
Netherlands	(Fl)	18.40	3.502	3.060	0.893	0.373	910.4	1	3.892	91.44	74.22	4.294	0.742	0.369	0.794	0.588	57.73	0.469
Norway	(NKr)	47.27	8.998	7.864	2.294	0.957	2339	2.570	10	235.0	190.7	11.03	1.907	0.948	2.041	1.510	148.3	1.205
Portugal	(Es)	20.12	3.829	3.347	0.976	0.407	995.6	1.094	4.256	100.	81.16	4.695	0.812	0.403	0.868	0.643	63.13	0.513
Spain	(Pta)	24.79	4.718	4.123	1.203	0.502	1227	1.347	5.244	123.2	100.	5.785	1.000	0.497	1.070	0.792	77.78	0.632
Sweden	(SKr)	42.84	8.155	7.127	2.079	0.868	2120	2.329	9.064	213.0	172.9	10	1.729	0.859	1.850	1.369	134.5	1.092
Switzerland	(SFr)	24.79	4.718	4.123	1.203	0.502	1227	1.347	5.244	123.2	100.0	5.785	1	0.497	1.070	0.792	77.78	0.632
UK	(£)	49.87	9.493	8.296	2.420	1.010	2468	2.711	10.55	247.9	201.2	11.64	2.012	1	2.153	1.593	156.5	1.271
Canada	(C$)	23.16	4.409	3.853	1.124	0.469	1146	1.259	4.900	115.1	93.45	5.406	0.935	0.464	1	0.740	72.69	0.590
US	($)	31.31	5.959	5.208	1.519	0.634	1549	1.702	6.623	155.6	126.3	7.307	1.263	0.628	1.352	1	98.24	0.798
Japan	(Y)	31.87	6.066	5.301	1.546	0.645	1577	1.732	6.741	158.4	128.6	7.438	1.286	0.639	1.376	1.018	100.	0.812
Ecu		39.24	7.469	6.527	1.904	0.795	1942	2.133	8.301	195.0	158.3	9.158	1.583	0.787	1.694	1.253	123.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.6523	0.6582	+0.0059	0.6594	0.6523	36,348	79,352
Mar	0.6566	0.6591	+0.0058	0.6606	0.6586	203	4,011
Jun	-	0.6603	+0.0057	0.6595	-	1	611

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.7845	0.7937	+0.0092	0.7947	0.7845	18,063	34,119
Mar	0.7928	0.7987	+0.0092	0.7975	0.7925	14	946
Jun	-	0.7999	+0.0092	0.8000	0.7979	1	54

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.0099	1.0236	+0.0138	1.0245	1.0089	20,924	57,521
Mar	1.0219	1.0316	+0.0140	1.0320	1.0219	1,357	5,352
Jun	-	1.0410	+0.0142	-	-	23	494

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.5880	1.5930	+0.0082	1.5956	1.5866	10,845	42,346
Mar	1.5900	1.5916	+0.0082	1.5950	1.5880	7	365
Jun	-	1.5882	+0.0082	1.5900	-	1	8

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Oct	CALLS Nov	CALLS Dec	PUTS Oct	PUTS Nov	PUTS Dec
1.500	9.24	9.17	9.17	-	-	0.08
1.525	6.79	6.75	6.95	-	0.03	0.28
1.550	4.29	4.43	4.88	-	0.16	0.69
1.575	1.85	2.50	3.14	-	0.66	1.42
1.600	0.02	1.09	1.87	-	1.74	2.52
1.625	-	0.36	0.99	0.83	3.45	4.13

Previous day's vol., Calls 108,647 Puts 9,756. Prev. day's open int., Calls 430,205 Puts 347,478

■ Pound in New York

Oct 14	-Close-	-Prev. close-
£ spot	1.5950	1.5905
1 mth	1.5943	1.5898
3 mth	1.5938	1.5896
1 yr	1.5834	1.5806

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Companies & Finance page in today's edition.

FT GOLD MINES INDEX

	Oct 14	% chg since 31/12/93	Oct 13	Mkt Cap $bn	% of Gold Mines	Gross div yield %	52 week High	52 week Low
Gold Mines Index (34)	2226.08	-0.3	2242.30	54.18	100.00	1.93	2367.40	1782.02
■ Regional Indices								
Africa (16)	3533.13	+6.9	3536.70	18.17	33.58	3.87	3623.28	2304.45
Australasia (7)	2864.81	+7.4	2791.21	7.02	12.97	1.68	3013.88	2181.17
North America (11)	1744.24	-6.3	1777.91	28.91	53.44	0.77	2039.85	1468.11

Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. Predecessor Gold Mines Index: Oct. 14: 280.0; week's change: -1.8 points; Year ago: 213.7.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1994 High	1994 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§125	F.P.	17.2	130	113	Compel	113		WN4.0	2.1	4.4	10.9
-	F.P.	1.30	1½	1	Cont'l Foods Wrts	1¼		-	-	-	-
-	F.P.	24.4	66	61	Emerging Mkts C	61		-	-	-	-
83	F.P.	12.2	68	65	Ennemix	67		RN0.71	5.3	1.3	8.4
115	F.P.	38.5	125	115	Games Workshop	124		RN4.6	2.2	4.6	11.7
-	F.P.	31.0	62	60	Hambros Sm Asian	62		-	-	-	-
-	F.P.	3.00	30	28	Do Warrants	30		-	-	-	-
180	F.P.	17.4	195	178	Mackie Intl	181	+1	RN8.0	2.2	4.1	7.4
180	F.P.	447.1	181	170	Man ED & F	174		RN8.6	1.6	6.2	9.6
-	F.P.	113.8	378	360	Templeton E New	368	+2	-	-	-	-
-	F.P.	11.9	212	189	Do. Wrts. 2004	192		-	-	-	-
-	F.P.	28.3	360	340	Wrexham Water	340		-	-	-	-
-	F.P.	4.81	330	325	Do. NV	325		-	-	-	-

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1994 High	1994 Low	Stock	Closing price p	+or-
500	Nil	18/10	60pm	24pm	Reckitt & Colman	60pm	+6
245	Nil	9/11	30pm	10pm	UniChem	29pm	-1
75	Nil	14/11	5pm	3pm	World of Leather	3pm	

UK INTEREST RATES

LONDON MONEY RATES

Oct 14	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5⅞ - 3½	5⅝ - 5	5½ - 5⅜	5⅞ - 5¾	6$\frac{5}{16}$ - 6$\frac{3}{16}$	7⅛ - 7
Sterling CDs	-	-	5$\frac{7}{16}$ - 5⅜	5$\frac{13}{16}$ - 5$\frac{11}{16}$	6$\frac{5}{16}$ - 6¼	7$\frac{3}{16}$ - 7⅛
Treasury Bills	-	-	5¼ - 5$\frac{3}{16}$	5⅝ - 5$\frac{11}{16}$	-	-
Bank Bills	-	-	5$\frac{13}{16}$ - 5¼	5$\frac{13}{16}$ - 5$\frac{23}{32}$	6$\frac{5}{16}$ - 6$\frac{3}{16}$	-
Local authority deps.	5⅛ - 5⅛	5¼ - 5⅛	5$\frac{9}{16}$ - 5$\frac{7}{16}$	5¾ - 5⅝	6$\frac{5}{16}$ - 6$\frac{3}{16}$	7$\frac{1}{16}$ - 6$\frac{15}{16}$
Discount Market deps	6¼ - 5¼	5⅜ - 5⅛	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from September 12, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¾	3¾	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ½pc.
Ave. tender rate of discount 5.4214pc. ECGD fixed rate Stg. Export Finance. Make up day Sep 30, 1994. Agreed rate for period Oct 26, 1994 to Nov 25, 1994, Schemes II & III 7.05pc. Reference rate for period Sep 1, 1994 to Sep 30, 1994, Schemes IV & V 5.735pc. Finance House Base Rate 6pc from Oct 1, 1994

BANK OF ENGLAND TREASURY BILL TENDER

	Oct 14	Oct 7		Oct 14	Oct 7
Bills on offer	£500m	£500m	Top accepted rate	5.4349%	5.4951%
Total of applications	£2550m	£2030m	Ave. rate of discount	5.4214%	5.4950%
Total allocated	£500m	£500m	Average yield	5.4957%	5.5713%
Min. accepted bid	£98.645	£98.630	Offer at next tender	£500m	£500m
Allotment at min. level	60%	99%	Min. accept. bid 182 days	-	-

BANK RETURN

BANKING DEPARTMENT	Wednesday October 12, 1994	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	1,203,094,125	-5,787,495
Bankers deposits	1,620,080,157	+93,445,265
Reserve and other accounts	5,869,866,174	+1,301,458,835
	8,707,593,456	+1,389,116,605
Assets		
Government securities	1,103,644,789	-23,184,128
Advance and other accounts	7,153,946,655	+1,407,923,382
Premise, equipment and other secs	437,712,675	-513,179
Notes	12,128,494	+4,896,506
Coin	161,643	-5,976
	8,707,593,456	+1,389,116,605
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	18,157,871,506	-44,896,506
Notes in Banking Department	12,128,494	+4,896,506
	18,170,000,000	-40,000,000
Assets		
Other Government securities	12,218,268,479	-183,318,944
Other Securities	5,951,731,521	+143,318,944
	18,170,000,000	-40,000,000

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	* Roxburghe Bank Ltd is no longer authorised as a banking institution.	6
Allied Trust Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
AIB Bank	5.75	Financial & Gen Bank	6.5	●Smith & Williamson Secs	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	TSB	5.75
Bank of Baroda	5.75	Girobank	5.75	●United Bk of Kuwait	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	Unity Trust Bank Plc	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Western Trust	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Whiteaway Laidlaw	5.75
Bank of India	5.75	Heritable & Gen Inv Bk.	5.75	Yorkshire Bank	5.75
Bank of Scotland	5.75	●Hill Samuel	5.75		
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75		
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
CL Bank Nederland	5.75	●Leopold Joseph & Sons	5.75		
Citibank NA	5.75	Lloyds Bank	5.75		
Clydesdale Bank	5.75	Meghraj Bank Ltd	5.75		
The Co-operative Bank	5.75	Midland Bank	5.75		
Coutts & Co	5.75	●Mount Banking	[illegible]		
Credit Lyonnais	5.75	NatWestminster	5.75		
Cyprus Popular Bank	5.75	●Rea Brothers	5.75		

● Members of British Merchant Banking & Securities Houses Association
* In administration

UK GILTS PRICES

[illegible]

● "Tap" stock. ‡‡ Tax free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds. Weekly percentage changes are calculated on a Friday to Friday basis.

Other Fixed Interest

[illegible]

STOCK INDICES

[illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

[illegible]

FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (REGULATED)(**)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

MANAGED FUNDS NOTES

LONDON SHARE SERVICE

BANKS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
ABN Amro Fl		£21½	7.5	Q81%	ϕ	Sep May	9'93	–
ANZ A$		174	-3.3	Q20c	0.7	Jan Jul	9.12	–
Abbey National	†N	408xd	4.1	15.6	2.1	May Oct	15.8	5411
Allied Irish I£	♣†N	253	6.3	Q5.0¼%	2.7	Oct May	15.8	1354
Anglo Irish I£	MN	56	1.8	Q17.5%	1.7	Jan Jul	6.6	1355
Asahi Y		734½	3.4	Q14%	ϕ	Jun Dec	12'92	3049
Banco Bil Viz Pta		£15[illegible]	4.0	Q27.2%	2.7	JyOcJaAp	7'93	–
Banco Sant Pta		£26[illegible]		Q38%	2.0	MyAuOcJa	1.8	–
Bk Ireland I£	♣	286	8.4	Q13.3%	3.2	Jun Dec	16.5	1360
Bank Scotland	♣†N	207	6.7	5.31	3.3	Jul Dec	16.5	1742
9¼pc Pf		112¾	0.9	9¼%	–	May Nov	25.4	1462
9¾pc Pf		118¼	1.1	9¾%	–	May Nov	25.4	1685
Barclays	♣†N	568xd	4.4	16.65	2.8	Oct May	15.8	1784
Dai Ichi Kgn Y		£11½	0.6	Q10%	1.2	Jun Dec	9'93	–
Deutsche DM		£295½	5.7	Q33%	–	May	5.93	–
Espirito Santo		£8[illegible]	-3.9	Q60c	5.2	Jun	6.93	5187
First Nat Fin	N	71	2.9	1.5	–	Mar Aug	18.7	2571
6.3pc Cv Pf		73	–	6.3%	–	Jul Jan	6.6	2570
7pc Cv Pf		132	0.8	7.0	–	Jul Jan	6.6	1488
Fuji Bank Y		1381½	0.1	Q17%	ϕ	Dec Jun	7'93	–
HSBC HK	†N	740xd	5.1	24.5	2.4	Nov Jun	5.9	2786
HSBC (75p Shs)	†N	723xd	5.9	24.5	2.4	Nov Jun	5.9	2776
Lloyds	†N	572xd	6.3	23.8	2.1	Oct May	8.8	3171
Mitsubishi Y		£15[illegible]	0.6	Q17%	ϕ	Jun Dec	12'92	–
Mits Tst & Bk Y		977½	6.0	Q18%	12.4	Jun Dec	12'92	–
Mitsui Tst & Bk Y		767	3.8	Q17%	5.5	Jun Dec	12'92	–
Nat Aust A$	†	473	-8	Q59c	1.7	Jul Jan	21.6	–
NatWest	†N	504	4.6	19.4	2.4	Oct May	8.8	3463
Ottomane FFr		£21½	-1.1	Q125%	ϕ	May	25.5	–
Ryl Bk Scotland	♣†N	415	4.5	12.0	1.9	Feb Jul	16.5	3874
Sakura Y		£8[illegible]	1.2	Q17%	3.0	Dec Jun	12'92	–
Sanwa Y		£12[illegible]	1.3	Q18%	2.0	Jun Dec	12'92	–
Standard Charta	†N	380xd	6.5	6.37	4.2	Jun Oct	22.8	4094
7.3pc Pf		85	1.9	7.37	–	Apr Oct	22.8	1718
Sumitomo Y		£11[illegible]	-1.0	Q17%	8.7	Jun Dec	12'92	–
Sumitomo Tst Y		939¼	4.1	Q17%	ϕ	Jun Dec	12'92	–
TSB	†N	215½	0.7	8.07	2.5	Apr Oct	15.8	4320
Tokai Y		£7[illegible]	-7	Q18%	2.8	Jun Dec	12'92	–
Toyo Tst & Bk Y		728¼	3.7	Q15½%	2.3	Jan Dec	6'93	–
Westpac A$		215		Q12c	ϕ	Jul Jul	7.8	–
Yasuda Tst Bk Y		685¼	2.8	Q15½%	2.3	Jun Dec	12'92	–

BREWERIES

	Notes	Price	Wk% ch'nge	Div net	Div cov	Dividends paid	Last xd	City line
Asset Hldgs		1¾	-30.0	–	–	–	–	2615
Bass	†N	536	2.0	20.95	1.8	Feb Jul	6.6	1772
Boddington	†N	252xd	0.8	6.32	2.1	Apr Oct	12.9	1862
Burtonwood	N	187	0.5	5.0	2.8	Feb Aug	18.7	2022
Eldridge Pope A	♣†N	166	-4.6	3.85	1.8	Feb Jul	4.7	2435
Fosters A$		56	1.8	Q6c	ϕ	May Oct	9'93	2434
Fuller STA		380		7.77	3.1	Aug Jan	18.7	2643
Gibbs Mew		453	-3.2	8.75	ϕ	Oct Apr	8.8	2893
Greenalls	♣†N	414	1.5	12.81	1.9	Jul Feb	16.5	2766
Greene King	N	522	0.8	12.9	2.7	Aug Feb	18.7	2769
Grosvenor Inns		143	0.7	4.75	ϕ	Mar Oct	15.3	–
[illegible]	†N	3650xd		49.0	3.7	Jun Oct	3.10	2912

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FT-SE Actuaries Share Indices.

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

MERCHANT BANKS

OIL EXPLORATION & PRODUCTION

OIL EXPLORATION & PRODUCTION - Cont.

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PHARMACEUTICALS

PRINTING, PAPER & PACKAGING

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		629½	—	0375c	1.9	Oct Apr	3'93	—
Barlow	Z	843	11.5	018c	—	Jul	20.6	—
Gold Flds Prop R		1182	—	052c	ϕ	Feb Sep	31.1	—
MK Props	z	96	—	087.1c	ϕ	Feb Sep	19.10	—
SASOL	♥	654	11.7	078c	—	Oct	9'93	3918
SA Brews		2123	8.6	0159c	2.2	Dec Jun	30.5	—
Tiger Oats	†	613	—	085c	2.9	Jul Feb	6.6	—
Tongaat-Hulett	h	589	-.5	070.4c	2.4	Feb Aug	4.1	—

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) UK & Irish incorporated non-listed companies.
- ¶ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. p Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1994. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Figures based on IIMR "Headline Earnings". P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Independent Parts and Ryland Group (Distributors), Straits Res. and Western Metals (Ext. Inds.) and Nippon Tel. & Tel. (Telecomunications). Deletion: BTR Warrants 1993/94 (Diversified Inds.)

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT2973. Ring 081-770 0770 (open 24 hours including weekends) or Fax 081-770 3822. If calling from outside the UK, ring +44 81 770 0770 or fax +44 81 770 3822. Reports will be sent the next working day, subject to availability.

FT Cityline

For up-to-the-second share prices call FT Cityline on 0336 43 or 0891 43 followed by the four-digit code listed after the share price. Calls charged at 39p per minute cheap rate and 49p per minute at all other times.

An International service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close October 14

1994 High	1994 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
17⅞	12¼	AAR	0.48	3.8	20	134	12½	12⅜	12½	-⅛
17¼	12⅝	A L Labs A x	0.18	1.1	38	39	16½	16⅜	16⅜	+1/16
78¾	57⅞	AMP	1.68	2.1	28	1990	u79⅝	77⅞	79¼	+⅞
72¾	48¼	AMR			69	3610	51	49⅝	50⅞	+1⅛
5	3⅞	ARX			13	11	3⅞	3¾	3⅞	
58⅛	38⅝	ASA	2.00	4.0	32	784	51⅛	49⅜	49⅝	-1
32	25⅞	AbbotL x	0.78	2.4	18	8392	u32	31⅞	32	+½
15¾	11⅞	Abitibi Pr	0.50	3.6	10	71	14¼	14	14	-⅜
23⅝	17¾	ABM Ind x	0.52	2.6		113	20	20	20	
16	11⅛	Acplncoln			29	81	15⅞	15¾	15⅞	+⅛
31	22⅞	ACE Ltd	0.44	1.8	29	96	24¼	23¾	23⅞	+¼
12½	9½	ACM Gvt In x	1.08	11.7		688	9⅝	d9¼	9⅜	-¼
10⅛	7	ACM GvOpp x	0.80	11.2		149	7⅛	7⅛	7⅛	+⅛
10⅝	7	ACM Gvt Sp x	0.96	13.7		175	7¼	d7	7	-⅛
12	8⅛	ACM Gvt Se x	1.09	13.1		444	8½	d8⅛	8⅜	-⅛
11¾	7⅞	ACM Man x	1.08	13.7		176	7⅞	7¾	7⅞	+⅛
9¼	8	ACM Managd x	0.72	8.9		17	8⅛	8⅛	8⅛	
15½	8¾	AcmeClv	0.44	3.2	16	24	13¾	13⅝	13¾	-¾
9⅞	6½	Acme Elect			7	68	9	8¾	9	+¼
28⅞	23	Acordia	0.60	2.2	13	12	27⅝	27½	27½	
13¾	5¾	Actava	0.36	3.6	2	110	10	9⅞	9⅞	-⅛
17	11¾	Acuson			129	1484	u17	16¾	16⅞	+⅛
18⅞	16½	Adams Expr	0.48	2.8	0	99	17¼	17⅛	17¼	
64	46½	Ad Micro	3.00	5.9		346	51¼	50¼	51	-½
31¼	16¾	AdvMic	3.00	13.2		921917	22⅞	22¼	22¾	-½
6⅞	5	Advest Grp	0.16	3.1	8	2	5⅛	5⅛	5⅛	
20	15	Advo Inc	0.10	0.6	117	2100	17⅝	17⅝	17⅝	
59⅞	49⅞	Aegon ADR	1.47	2.4	13	458	u60½	59⅞	60½	+1½
[illegible]										

Continued on next page

4 pm close October 14

NYSE COMPOSITE PRICES

1994 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
Continued from previous page										
45	37¼	StPaul	1.50	3.5	4	1289	43⅜	42⅞	43¼	+⅞
9⅜	5	Salant Crp			6	89	5½	5⅜	5½	
49⅞	31⅞	Sallie Mae	1.40	4.3	8	1747	32½	d31⅞	32½	+½
13⅞	11⅞	Salomon Br	0.32	2.6		414	12⅜	12⅛	12¼	+⅛
52¼	37⅝	Salomon	0.64	1.7	5	1497	38⅞	38½	38¾	+⅛
25	17½	SnDgGE	1.52	7.8	10	329	19⅝	19½	19½	
10	7½	SantaFeERs	0.16	1.8	9	394	9⅛	8⅞	9	-⅛
17⅞	13½	SFeGd				6294	15	14½	14½	-⅜
40	31½	SantaFePac	2.80	8.5	15	96	33	32¾	33	+⅛
26¼	12⅛	SanFeP	0.10	0.7	8	4818	14⅞	14⅜	14⅝	+¼
26	19⅜	SaraLee	0.64	2.8	15	6183	23¼	22¾	23⅛	+⅛
50⅛	42⅛	Scana Corp	2.82	6.4	11	239	44¼	44	44⅛	
30½	12½	Scecrp	1.00	7.4	9	5290	13½	13¼	13½	+⅛
43½	31¾	ScheringP			33	201	43⅜	43¼	43⅜	+⅜
72½	54½	SchrPl	2.04	2.9	16	3594	71¼	70⅜	70⅝	+⅛
63	50¾	Schlmb	1.20	2.1	23	3315	56⅝	55¾	56½	+⅛
33⅞	23¾	Schwab(C)	0.38	0.9	15	3512	33¼	31⅝	32¼	-1⅛
10¾	6⅛	Schwitzer			26	94	9⅝	9⅜	9⅝	-⅛
22⅝	12⅞	SciAtl	0.06	0.3	39	1991	20⅝	19¾	19⅞	-¾
16⅞	13	Scotman	0.10	0.6	14	28	15¾	16¼	15¾	
66⅜	37¼	ScottP	0.80	1.3	17	1947	62⅞	62	62⅝	
28⅝	18⅝	ScuddrNAsF	0.21	0.8		70	25⅛	24¾	24⅞	+⅛
12⅝	9⅛	ScuddrNEuF	0.16	1.6		120	9¾	9⅝	9¾	
18¼	13½	SeaCnB	0.70	4.5	7	z100	15⅝	15⅝	15⅝	
16½	14⅞	SeaC1.4625	1.46	9.4		2	15½	15½	15½	
32⅝	26¼	Seagrm	0.60	2.0	39	3098	30¾	30⅛	30¾	+⅜
29¾	22⅛	Seagull En			31	140	24	23⅞	23⅞	-⅛
36¼	30⅝	Sealed Air			24	533	32½	32⅛	32½	
[illegible]										

NASDAQ NATIONAL MARKET

4 pm close October 14

[illegible]

AMEX COMPOSITE PRICES

4 pm close October 14

[illegible]

FT GUIDE TO THE WEEK

17 MONDAY

Compensation on Kuwait

The United Nations Compensation Commission meets in Geneva to consider claims relating to Iraq's 1990 invasion of Kuwait (to Oct 21). The Commission, which is sifting through more than 2m claims totalling nearly $160bn, will focus on damage to individual property and compensation for those forced to flee Kuwait. Most claimants will have to wait for their money until the UN lifts its ban on Iraqi oil sales.

Russian economy: An International Monetary Fund mission starts talks in Moscow on Russian economic reform, the government's budget and possible financial assistance for a stabilisation programme.

World trade: Trade ministers, officials and business executives begin a week in Colombus, Ohio, to discuss cutting the costs of doing business abroad. The United Nations Conference on Trade and Development, the meeting's organiser, believes streamlining procedures and paperless trading could save companies and governments worldwide $100bn a year.

Infrastructure in Asia: Indonesia hosts the World Infrastructure Forum (to Oct 21). The conference brings public and private sector together to discuss co-operation in regional infrastructure development.

Environmental groups are due to sue President Suharto of Indonesia for diverting to a state-owned aircraft maker $185m intended for replanting rainforests.

Middle East peace: Jordan-Israel peace negotiations resume in Aqaba, on the Jordanian Red Sea coast (to Oct 20). Last week saw an agreement to link electricity supplies between Aqaba and the Israeli resort of Eilat. Outstanding issues are water and security.

Women's economic and social advancement, including equality at work and political representation, are the concern of a United Nations-sponsored meeting in Vienna being attended by some 50 European nations. The five-day meeting is part of preparations for the Fourth World Conference on Women in Beijing next September.

UK politics: The House of Commons returns from its summer recess.

Eurotunnel, operator of the Channel tunnel, announces its 1994 first-half results. It will be its first opportunity to report on actual performance as opposed to making forecasts, though the results of just over a month of freight operations will not be very significant.

At the same time, the start date and fare tariff for the intercity Eurostar trains will be unveiled. Services between London, Paris and Brussels are expected to begin in mid-November.

FT Surveys: Business Schools: An A-Z Guide and International Telecommunications.

18 TUESDAY

Turkic states hold summit

Leaders of Turkey and the five Turkic states of the former Soviet Union meet in Istanbul for their second summit (to Oct 19). The group was set up in 1992 at Turkey's instigation, to draw together Azerbaijan, Kyrgyzstan, Turkmenistan, Kazakhstan and Uzbekistan.

The two-day meeting is likely to be dominated by the crisis in Bosnia, the Middle East peace process and unrest in the Caucasus, especially the conflict between Azerbaijan and Armenia.

Turkey's grandiose aim of creating a Turkic federation, floated at the inaugural conference two years ago, has faded. Russia's continued strong presence in the region overshadows all talk of unity.

Asylum in the UK: Amnesty International's British section publishes its study Prisoners Without a Voice: Asylum-Seekers Detained in the United Kingdom, showing that Home Office procedures violate international human rights law.

Simultaneously, the London-based Medical Foundation for the Care of Victims of Torture is due to issue a report saying that torture survivors seeking asylum in the UK are being detained for periods ranging from two to 17 months.

Saleroom: The largest emerald-cut blue diamond ever to be offered at auction is expected to raise $8m at a jewellery sale at Sotheby's in New York. Of an intense powder-blue, the 20.17 carat diamond is also favoured with good clarity and perfect proportions.

Lost art: The Musée d'Orsay in Paris opens an exhibition of works by artists including Monet, Renoir and Gauguin, in the hope of discovering their owners. The collection of 21 paintings and drawings was part of a hoard taken from France by the Nazis during the second world war.

The works resurfaced in East Berlin in the 1970s and spent 20 years hanging in the National Gallery there. They were returned recently in the wake of German reunification.

Phone-cars: Ford is to offer free mobile telephones and connections to the Cellnet system on nearly all its vehicles sold in the UK from today in an attempt to improve new car sales. The company expects at least 100,000 buyers a year to choose the option.

Holidays: Sri Lanka.

FT Survey: The Prevention and Detection of Fraud.

19 WEDNESDAY

Black Sea energy plans

Energy officials from 11 Black Sea Economic Co-operation countries meet at the Bulgarian port of Varna for the first working meeting of the Black Sea and Balkan regional energy centre, which is supported by the European Union. Most of the members have been moving from socialist-era planning to a market economy and face energy problems. They plan to co-ordinate strategies, by agreeing, for example, on the best routes for oil and gas pipelines.

Dynamic economics: The Organisation for Economic Co-operation and Development is to hold a high-level informal meeting for participants from OECD member countries and nine Dynamic Non-Member Economies (DNMEs) at a hotel in Tokyo. The emphasis will be "forward-looking" – how can the OECD enhance the capacity of member countries and the DNMEs to address their common domestic and international economic problems in the coming year?

Ukraine's parliament plans to vote on President Leonid Kuchma's reform programme, unveiled last week. The resolution is non-binding but will gauge the mood of the communist-dominated chamber towards Ukraine's first significant attempt at economic reform. The chamber may also this week set a date for an awaited vote on Ukraine's accession to the Nuclear Non-Proliferation Treaty.

Saleroom: The Lau Collection of early Chinese and Japanese photographs comes under the hammer at Christie's in London. Highlights include prints of the Imperial Summer Palace in Peking taken in 1860 immediately before its destruction, and the hand-tinted albumen prints of the Italian Felice Beato recording the people, costumes and landscape of old Japan. The photograph below comes from an album of 69 prints of Chinese subjects estimated at £4,000 ($6,300) to £6,000.

FT Surveys: Luxembourg and North American Business Locations.

Britain's Queen Elizabeth begins a state visit to Russia today, accompanied by the Duke of Edinburgh and Douglas Hurd, foreign secretary

20 THURSDAY

Vietnam focuses on deficit

Vietnam's National Assembly is due to begin a landmark month-long session. Diplomats say the rubber-stamp legislative body is convening about a month earlier than usual because the communist leadership wants to tackle economic issues such as inflation and the growing budget deficit before the year is out.

Trade negotiators meet in Geneva for two days in a bid to thrash out a new Gatt code of fair trade practice for civil aircraft. With the US and the European Union far apart, hopes are dimming that a deal can be reached by the year-end deadline.

Iran's President Hashemi Rafsanjani visits India – a few weeks after Iran received Farooq Ahmad Leghari, president of its ally Pakistan. Iran hopes to build a gas pipeline through Pakistan to India, but Rafsanjani has said economic co-operation between the three states is being held up by tension between India and Pakistan. Iran is positioning itself as "honest broker" to resolve differences between the two over such issues as Kashmir.

Hungarian debt: International Monetary Fund managing director Michel Camdessus visits Hungary. The IMF is urging the Socialist-led government to cut spending to prevent the country's high debt rising further.

FT Survey: The New UK Gas Market.

Holidays: Kenya.

21 FRIDAY

Confidence vote in Russia

The Russian Duma has called a vote of confidence in the government following last week's wild fluctuations of the rouble. President Boris Yeltsin moved quickly to repair the political damage by sacking the acting finance minister, Sergei Dubinin, and urging Victor Gerashchenko, head of the Central Bank, to quit. But many deputies remain furious about the whole affair and may bring the vote forward to earlier in the week.

CIS summit: Leaders of the Commonwealth of Independent States are due to meet in Moscow to debate economic union – formally agreed last month but not yet in place. Russian-Ukrainian relations will come up again; resolution of such thorny issues as the Black Sea Fleet and Ukraine's debts to Russia is still distant.

German M3: The September figures for the erratic M3 broad measure of the money supply are due for release. The expectation is that it will continue its decline, falling from 8.2% to 7.5%, but still above the 6% upper limit desired by the Bundesbank.

UK economy: There have been tentative signs, notably the August fall in manufacturing output, that the pace of UK economic growth slowed in the third quarter. Today's first estimate of gross domestic product growth is expected to reveal a 0.6 per cent quarter-on-quarter rise, down from 1.1 per cent in the previous three months.

22-23 WEEKEND

Kyrgyzstan referendum

The Central Asian republic of Kyrgyzstan holds a referendum on Saturday on the future shape of the Kyrgyz parliament. The former parliament, a hangover from the Soviet period, dissolved itself last month.

President Askar Akayev has called the referendum with the aim of achieving public support for a smaller two-chamber parliament more representative of the population and of the country's regions.

Apec meeting: The Asia Pacific Economic Co-operation forum starts a two-day ministerial meeting in Osaka on Saturday dedicated to nurturing medium and small enterprises.

UK motor show opens to the public on Saturday in Birmingham (to Oct 30).

Spain's Basque country stages regional elections on Sunday. The moderate PNV nationalist party, a member of the governing coalition, is expected to emerge as the strongest single party.

Reds on the streets: The Communist Party of the US celebrates its 75th anniversary on Sunday, with demonstrations planned in 75 cities and a rally in Chicago.

Clocks go back one hour in the UK and Ireland. They go forward one hour in Brazil.

Compiled by Patrick Stiles.
Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Tuesday: The UK's budget deficit has been falling, with economists predicting a 1994-95 shortfall of £30bn-£34bn, below the Treasury's forecast of £36bn. September figures, published today, are expected to show a borrowing requirement of £4.3bn.

The Confederation of British Industry's distributive trades survey will provide the week's first clue as to activity on the UK high street in September.

Wednesday: UK retail sales volumes are expected to have rebounded after a weak August performance. But the picture has been confused by signs of weak personal income growth and buoyant M0 figures. The consensus forecast is for monthly growth of 0.3 per cent.

Thursday: Britain's broad money supply growth has been weak during the recovery and September's annual growth rate in M4 is forecast at 4.8 per cent, near the bottom of the 3-9 per cent monitoring range.

Friday: Analysts expect a slight widening in the UK's trade deficit with non-European Union countries to £320m in September, from £262m in August. But this small deterioration should not alter the underlying trend of an improving UK trade position.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	US	Aug business investment	0.4%	0.3%
Oct 17	Japan	Sep trade balance, custom clrd	$12.5bn	$6.1bn
	Japan	Sep Tokyo dept store sales**	–	-5.3%
Tues	Japan	Aug industrial production†	–	-1.7%
Oct 18	Japan	Aug shipments†	–	-1.2%
	Japan	Oct wholesale price indx. 10 days	–	0.1%
Tues	UK	Sep public sector borrow req	£4.3bn	£3.2bn
Oct 18	Canada	Sep leading indicator†	–	0.4%
	Canada	Aug manufacturing new orders*	–	2.6%
	Canada	Aug manufacturing shipments*	–	1.1%
Wed	US	Aug trade, goods and services	-$10bn	-$11.0bn
Oct 19	US	Aug merch trade, bal of payment	–	-$5.7bn
	US	Aug merchandise trade, census	-$13.5bn	-$14.6bn
	US	Aug merchandise exports, census	$42.5bn	$41.2bn
	US	Aug merchandise imports, census	$56.0bn	$55.8bn
	France	July and Aug indust prod†*	0.5%	-0.8%
	France	July manufacturing prod†*	0.3%	-1.3%
	UK	Sep retail sales*	0.3%	-0.3%
	UK	Sept retail sales**	3.1%	2.9%
	Canada	Aug merchandise exports†	–	1.1%
	Canada	Aug merchandise imports†	–	-4.7%
Thurs	US	Aug retail sales†	–	-1.8%
Oct 20	US	Oct Philadelphia Fed index	–	14.8
	US	Sep building permits	–	1.35m
	US	Sep housing starts	1.41m	1.44m
	Japan	Sep money supp, M2, cash dep	2.2%	2.0%
	Japan	Sep broad liquidity**	–	3.6%
	France	Aug trade balance†	FFr6.0bn	FFr5.7bn
	UK	Sep M4*	0.3%	0.4%
	UK	Sep M4**	4.8%	4.7%
	UK	Sep M4 lending	£2.2bn	£1.9bn
	UK	Sep build soc, net new commit	£2.9bn	£3.0bn
Fri	US	Aug wholesale trade†	–	0.9%
Oct 21	Japan	Aug overall pers consum expd**	-0.5%	-0.1%
	Japan	Aug pers consum expd, workers**	–	0.0%
	Japan	Aug income, workers**	–	-7.0%
	France	Sep final consumer price index*	–	-0.3%
	France	Sep final consumer price index**	–	1.6%
	UK	Sep trade, ex-EC	-£320m	-£262m
	UK	Third quarter gross dom prod**	3.5%	3.8%
	UK	Third quarter gross dom prod	0.6%	1.1%
During the week...				
	Japan	Oct trade balance, first 10 days	–	$3.7bn
	Germany	Sep producer price index*	0.2%	0.2%
	Germany	Sep producer price index**	0.9%	0.7%
	Germany	Sep M3	7.5%	8.2%
	Germany	Sep priv sector lending, six mths	9.2%	9.6%
	Germany	Aug trade balance	DM5.0bn	DM3.5bn
	Germany	Aug current account	-DM6.0bn	-DM13.3bn

*month on month, **year on year, †seasonally adjusted *Statistics, courtesy MMS International.*

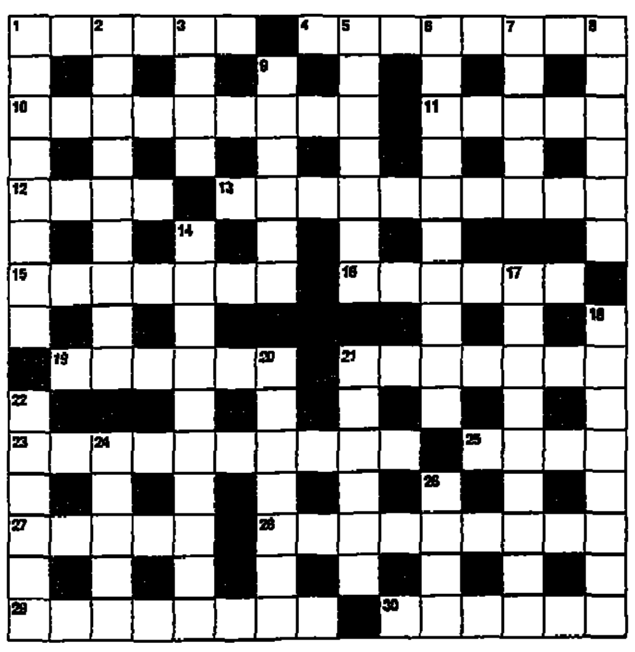
MONDAY PRIZE CROSSWORD
No.8,586 Set by GRIFFIN

ACROSS

1 What has eight legs and flies? (6)
4 Maintain firm is ahead of Severn development (8)
10 When to leave port worker to attacker (9)
11 Expel crooked vice-treasurer initially (5)
12 Try and go (4)
13 Standing by opening in one-man church (10)
15 Airline employee set about taking charge (7)
16 Green turned and said why with vigour (6)
19 Burn end of finger in water vapour (6)
21 Use cerise liquid around civic centre (7)
23 If some turn round it's trouble! (10)
25 Found in the approved pile (4)
27 She's a nun that is non-U (5)
28 With skill I retard growth of plant (9)
29 In time it's their turn for a number (8)
30 Poles on lakes first dropped by treacherous people (6)

DOWN

1 With sting is going to hospital quickly (8)
2 Ruins poor man in revolt (9)
3 Impressive city area, very good centre (4)
5 Not allowed to show conclusion (7)
6 One loved the unusual theatres we entered (10)
7 Controller containing string, as a rule (5)
8 Judge encounters sweetheart when climbing (6)
9 Stuffed sheep seemed to look away (6)
14 Spiteful man and one less violent (10)
17 Helps tourists to reserve seats behind pilot (9)
18 Not so much after assistance as incompetent (8)
20 Men hate messing with gas (7)
21 Nurse brewed tea for legislative body (6)
22 Result of a crash course? (6)
24 Where Ian is standing (5)
26 Carefully examine sulphur tin (4)



A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday October 27, marked Monday Crossword 8,586 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday October 31.

Name...

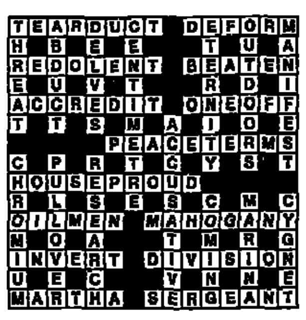
Address...

....

Winners 8,574

Mrs J. Harris, Sydling-St-Nicholas, Dorchester
B.R. Candy, Maidenhead, Berkshire
Ann Cursley, Halstead, Essex
P. Hebington, Portsmouth, Hants
R.H. Jones, Chorlton, Manchester
J.C. Williams, London W9

Solution 8.574



International Telecommunications

Monday October 17 1994

Despite the excitement over telecom 'superhighways,' most of the world's population does not yet have access to a basic phone line, writes **Andrew Adonis**

It is time to cut through the hype

'The linking of the world's people to a vast exchange of information and ideas is a dream that technology is set to deliver. It will bring economic progress, strong democracies, better environmental management, improved healthcare and a greater sense of shared stewardship of our small planet.'

– US vice-president Al Gore, writing in the FT last month about his ambitions for a Global Information Infrastructure (GII), based on international fibre-optic telecommunications.

It is a noble goal. Mr Gore's vision also sounds plausible, so successful has been the "superhighways hype" industry. For many FT readers, sitting in offices crammed with phones, PC screens, on-line information services, with a mobile handset in the briefcase, much of it has already been accomplished.

But it is time for serious observers to cut the hype and take a sober look at reality. The fact is that technology is *not* about to "deliver" the GII, and with it a paradise of universal democracy, peace, greenery and long life.

Most of the world's population does not even have access to a basic phone line; and that is the best that technology, plus huge investment, is likely to deliver to even a small minority of people within the foreseeable future. Mr Gore does not pretend otherwise.

In 1985, the Maitland Commission noted: "In most developing countries, the telecommunications system is not adequate even to sustain essential services." Now, a decade on, networks remain grossly inadequate. Barely a fifth of 105 countries surveyed by the International Telecommunications Union boast more than 25 phone lines per 100 people, with most developing countries providing fewer than 5 per 100 *(see charts, overleaf)*.

According to a recent study,* developing countries have 75 per cent of the world's population and 16 per cent of its product, but only 12 per cent of its telephone lines. As for the GII, the typical Spaniard will this year be on the phone to someone abroad for a mere 20 minutes, but that compares with a few seconds for the typical Tanzanian.

Telecoms development is critical to economic growth: a study by the International Telecommunications Union plotting gross domestic product per capita against "teledensity" (telephone lines per 100 people) suggests that for every extra $1,000 of GDP a country will have an extra 2.24 phone lines per person.

The foremost challenge – in telecom terms – for the developing world is the provision of more basic phone lines. The private sector in the developed world – banks, equipment suppliers and operators – is set to play a critical role in meeting it. According to a recent World Bank presentation, about $55bn a year for the next six years will be required to build up basic networks in developing countries and the former eastern Europe bloc. Whereas in the 1980s barely a fifth of telecoms investment in the developing world came from the private sector, about half of the $55bn will have to come from that source.

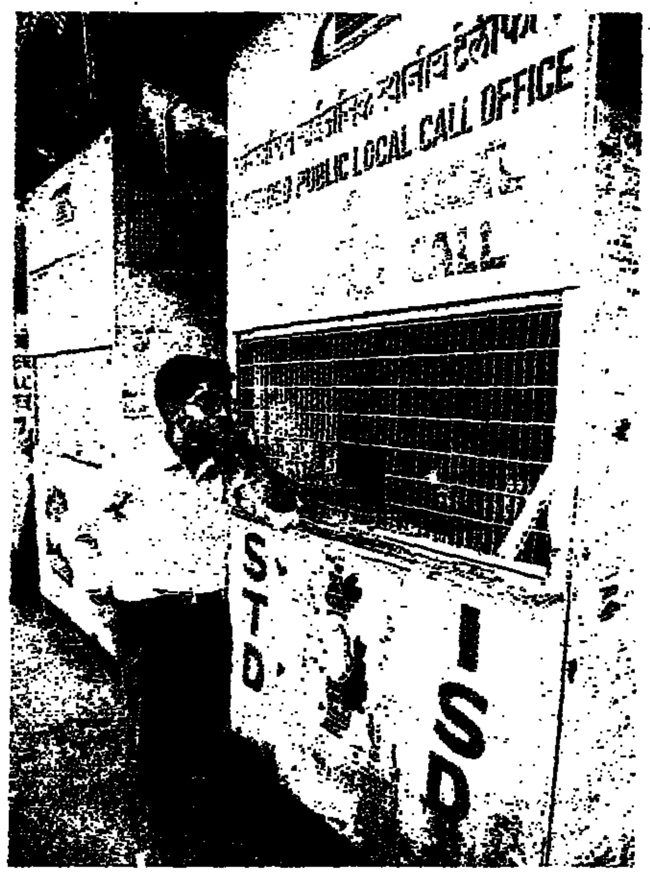
In the World Bank's view, the *only* way to achieve that goal is for governments to embark on radical liberalisation and privatisation programmes. They are starting to do so, albeit in a halting manner.

India, which has barely eight telephone lines per 1,000 people, is a classic study of the forces at work. Western operators, eyeing the lucrative opportunities for satisfying unmet demand, have been flooding the Indian government with proposals for franchised networks and competing operations. The country's state telecoms commission gave them strong support, but the government, besieged by trade unions and worried about losing control, dithered about abolition of the state monopoly.

Finally, last month the government decided to allow private operators to bid for regional licences to operate networks in competition with the state monopoly – a significant concession, although less than the private groups wanted – but at the same time moved the strongly pro-reform chairman of the telecoms commission to another job.

It is a similar story in China, the world's biggest telecoms growth market, where the country's ministry of posts and telecommunications (MPT) has fought tooth and nail against any weakening of its position. The MPT this year lost the battle to prevent other state ministries setting up their own telecoms division, and it is set to face further deregulation of the market as Beijing seeks to attract foreign capital to help meet its target of increasing China's number of phone lines from the present 30m to 110m by 2000. Only in the developed world are "superhighways" – the upgrading of telecom networks to take fibre-optic

Continued on page two



The great challenge in world telecoms is the provision of basic telephone lines. In India, the aim is to install 10m new lines – see report, page nine. Pictured left, a caller uses a public phone in Bombay. In Africa, above, a BT engineer shows a switchboard system to young children. Meanwhile, in China, which already has 17m phone lines, the new target is 100m lines operating by the year 2000. The business caller, right, is using GPT's telepoint mobile phone service.

IN THIS 16-PAGE SURVEY

New worlds opening up

EDITORIAL PRODUCTION: MICHAEL WILTSHIRE

A long road yet to 'superhighways'

Continued from page one:

cables to the kerb or even into the home – an immediate concern. Most of the main operators have built trunk fibre networks and are starting to extend fibre into the local loop; they are also at various stages in trials of inter-active business and residential services, from networked personal computers to home shopping and video-on-demand.

Again, a dose of caution is needed. Very few inter-active services are currently available. Most national networks are not yet up to it; and where they are, the pricing of services such as video-on-demand is highly problematic, particularly where existing alternatives – in that case renting videos from the local store – are cheap and well-established.

The "global village" is similarly inhibited by high cross-border telecoms rates. Sustained by the cartel of national operators which fixes the tariffs, international telecoms prices remain far higher than costs. The cartel is beginning to crumble in the face of liberalisation, the rise of new forms of competition, and the formation of global alliances of large telecoms operators aiming to offer "one-stop" services to multinationals. But until cross-border prices come down to the level of national tariffs, Mr Gore's GII will encompass a fairly select band.

One of the most effective remedies for monopoly pricing is, of course, to abolish the monopoly. Across the developed world monopolies are in the process of being abolished. The UK, Sweden and New Zealand now have almost unrestrained telecoms competition: new operators are able to gain licences quickly and they are allowed to build their own infrastructure.

Elsewhere, liberalisation is proving a fraught endeavour, although the trend is unambiguous. In the US, Congress failed this year to reform the country's antiquated telecoms laws. The proposed legislation would have broken down the barriers between "local" and "long-distance" networks, extending competition in one step and avoiding the heavy litigation which looks set to continue to be the prime vehicle for reshaping the US regulatory maze.

In Europe, where monopoly remains the rule for basic voice traffic, an orderly march to full competition is in progress. The EU's 12 members have agreed to allow full competition in voice services by January 1998, and are close to agreeing to open up infrastructure within a similar timescale.

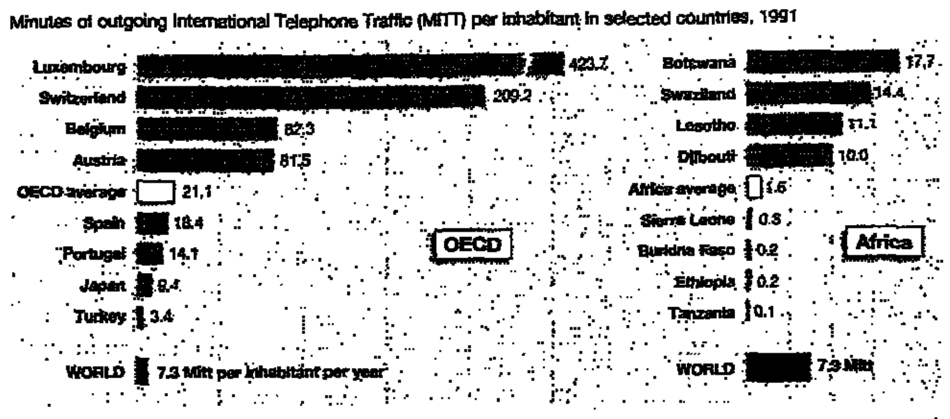
Across most of the developed world, competition is already entrenched in the fast-growing mobile communications sector, with the cellular phone on the threshold of becoming a mass consumer good. As it does so, operators are increasingly focusing on the potential for radio systems to replace "fixed" networks in the local loop. Such "fixed cellular" systems are set to provide low-cost local networks, dramatically cutting the investment required to provide networks in competition with those of existing fixed-wire operators and offering new prospects for telecoms growth in the developing world. Some believe that in the developed world the prospect of serious competition with radio operators for voice telephony traffic will drive existing fixed-wire operators to develop superhighway services fast, since the greater bandwidth of fibre-optics will provide their main competitive edge over radio. Mr Jozef Cornu, technical director at Alcatel, the French equipment supplier, says: "In the battle between operators, those that go via radio will lack bandwidth, so those with fixed networks will be obliged to develop multimedia services."

It is a plausible scenario, and further support for the "Negraponte switch" – the notion developed by Mr Nicholas Negraponte, director of the media laboratory at the Massachusetts Institute of Technology, that services traditionally delivered by radio are set to switch to cable and vice versa. But once again, it does not describe the telecoms world this year or next.

R.J.Saunders, J.J.Warford, B.Wellenius, "Telecommunications and Economic Development," (second edition), Johns Hopkins University Press.

The information rich and the information poor

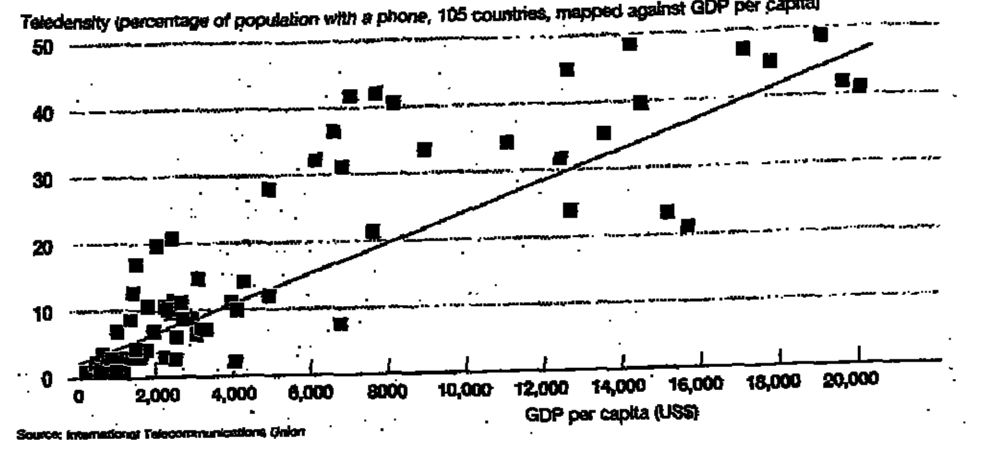
Minutes of outgoing International Telephone Traffic (MITT) per inhabitant in selected countries, 1991



Source: ITU Telecom Indicator Database

Teledensity and wealth

Teledensity (percentage of population with a phone, 105 countries, mapped against GDP per capita)



Source: International Telecommunications Union

Low 'teledensity' of poorer countries

The chart (above, right) plots GDP per capita against the number of telephone lines per 100 people ('teledensity') for 105 countries, surveyed by the International Telecoms Union. Each square on the chart represents a country. The overwhelming concentration in the bottom left-hand corner reflects the very low teledensity in poorer countries. Although the relationship between wealth and teledensity is drawn as a straight line, in fact it appears easier to increase teledensity for low income countries. According to the ITU, this suggests "that telecoms investment brings higher social and economic rewards in low income countries than in high income countries, at least in terms of benefits per extra dollar spent."

European progress towards privatisation of telecoms

Liberalisation is bound to accelerate the pace

Privatisation and liberalisation are opening up new worlds for Europe's former postal and telecom monopolies (PTTs), one where they have to compete to survive and are no longer tightly constrained by ministerial dictates, writes **Andrew Adonis**

Only a few years ago, three assumptions governed the provision of telecommunications worldwide: that it was a natural monopoly, that it was a national utility, and that therefore it was best managed within the public sector.

Accordingly, state-owned PTTs were the norm. Almost all of them were monopolies, many of them an integral part of their government's ministry of posts, and often managed in tandem with the national postal service. In the mid-1980s, the US and the UK struck out in a different direction. The break-up of AT&T in 1984 unleashed serious competition in the US long-distance market, while Margaret Thatcher's government in the UK sold off a minority stake in British Telecommunications in the same year, exposing BT to a long-distance competitor, Mercury, which built its own network.

But the US and UK had few international imitators, and none of note in Europe. The US telecoms industry structure, with its divorce between local and long-distance carriers, was regarded as alien on the other side of the Atlantic; while Mrs Thatcher's passion for privatisation was equally alien to her fellow European government leaders. And in the early years after BT's privatisation there was little to suggest that many people besides the company's shareholders, who benefited from an underpriced flotation, had gained much from the exercise.

A decade later, the picture is transformed. Most of Europe's PTTs are at some stage on the privatisation road. Each country is following its own distinctive path and some have as yet barely embarked on the course. But the following milestones are frequently encountered:

□ **De-merger of the posts ministry and the PTT:** This step has taken place in almost every European country. Posts and telecoms operations have invariably been transferred to a state agency with a management board separate from, though appointed by, the sponsoring ministry.

□ **De-merger of posts and telecoms:** This has taken place across most of western Europe. The rationale is two-fold: that posts and telecoms are now fundamentally different businesses, employing radically different technologies; and that telecoms is more suitable than posts for commercialisation and privatisation.

The Netherlands is a striking exception. KPN, the national operator, has retained posts and telecoms – and was privatised in that condition earlier this year. Some analysts say KPN is the exception which proves the rule, since the Dutch postal service is one of the few in Europe to run at a profit (one of the others is the UK's Royal Mail, which is also a candidate for privatisation). However, most analysts believe the two postal services to be profitable in large part *because* they are commercial. KPN's postal division, in particular, has a Europe-wide reputation for its success in exploiting the potential for competition in international mail delivery. Across the rest of Europe postal services are highly regulated, and face little external competition or pressure for reform. Whereas the EU is pressing hard on the liberalisation of telecoms, it has moved more slowly on the postal side.

In Britain, Oftel, the telecoms regulator, has forced BT to reduce call charges. Pictured here is BT's worldwide network management centre where problems can be pin-pointed around the clock

□ **Commercialisation:** The next step after de-merger is generally the setting of commercial targets for the new state-owned telecoms company, and the granting of a degree of commercial freedom. Such freedom typically includes the right to form international alliances, plan investments and manage resources without close ministerial supervision (in theory at least). In the case of Sweden, which has opened its telecoms market to full competition while leaving the state operator, Telia, in the public sector, the upshot is a company which in most respects except ownership resembles a private sector concern.

Is commercialisation an unstable halfway house between state monopoly and full privatisation with competition?

Many British and American industrial economists believe so; and their verdict appears to be confirmed by European experience. The governments of France, Germany and Italy all view their "commercial" telecoms companies as ripe for privatisation, and only fear of a serious trade union backlash has led the Balladur government to refrain from moving to privatisation at the same time as Germany and Italy do so.

The proposition is far from proven. Sweden's experience, in particular, suggests that the "dynamic" effects of privatisation can be secured by rigorous commercialisation, while continued state ownership is not an inherent barrier to competition.

Telia is also a leading member of Unisource, one of the three new European telecoms alliances. However, were Unisource to wish to integrate its operations more fully by some form of cross-ownership between its members, partial privatisation of Telia would be unavoidable.

□ **Partial privatisation:** In most countries with a privatised former PTT, the company is the largest on the local stock exchange. That fact alone explains why virtually all telecoms privatisations have been phased, although political factors have also weighed heavily.

All the EU telecoms privatisation carried through to date (UK, Denmark, Netherlands) have been – or are being – carried through in stages. Typically, an initial sale of 30 per cent is followed by the disposal of two further tranches.

In the UK, the process took nine years to complete. A similar course is planned with the largest of the forthcoming flotations, that of Deutsche Telekom, which is scheduled for 1996. Some of Europe's smaller PTTs, with less advanced networks, are considering the sale of strategic stakes to overseas partners as part of a partial privatisation. In January, Latvia sold such a stake in its PTT to Cable & Wireless, the privatised UK international operator: in return for a guaranteed $160m of investment over three years, a consortium headed by C&W will take a 49 per cent stake in the company.

Greece and Belgium are considering strategic partnerships. Telecom Eireann, the Irish PTT, is looking for a strategic partner without privatisation, but analysts expect that any deal might pave the way to an eventual sell-off.

□ **Liberalisation:** Privatisation does not necessitate immediate liberalisation, as the experience of Singapore, Denmark and the Netherlands shows. But liberalisation tends to follow fairly soon, if not at the outset, for two reasons:

First, because governments, once they are regulators rather than providers of telecoms, become more consumer-oriented.

Second, because of political concerns about the straight conversion of a public monopoly into a private monopoly.

In Europe another force is at work – the EU's 1998 deadline for the opening up of voice services to competition. The imminence of liberalisation is bound to accelerate the pace of progress towards privatisation, where it has not already happened.

□ **Restructuring:** Privatisation and liberalisation open up a new world for the former PTT, one where they have to compete to survive and are no longer tightly constrained by ministerial dictates.

Internal restructuring, including severe cost-cutting programmes, almost inevitably follow, although they are also taking place within state-owned PTTs. The degree of change depends largely upon the degree to which commercialisation had previously been taken.

Fresh calls for a 'market-driven revolution' in voice telephony services

European Union horizons draw closer

The sceptics over European liberalisation are now in fast retreat, reports **Andrew Adonis**

When, after much anguish, the European Union's telecommunications ministers finally agreed in June 1993 to liberalise the EU's voice telephony market, full competition in Europe's telecommunications services market still seemed a distant prospect.

The date agreed by the ministers for the liberalisation of basic voice services – January 1 1998 – was still nearly five years away. Five of the EU's 12 member-states gained exemptions allowing them to keep out competition for longer still – Greece, Spain, Portugal and Ireland until 2003, and Luxembourg until 2000. And, with regulatory structures and inter-connection regimes non-existent across most of the EU, many believed that a few years could be added to those dates before effective competition would be a reality.

The sceptics and far-distance gazers are now in fast retreat. Although little has formally changed since the ministerial agreement, it appears increasingly likely that liberalisation will come sooner rather than later and that effective competition will follow hard on its heels.

It is not just the passage of time which has changed perceptions. Other forces are serving to accelerate the pace of liberalisation and intensify the commitment of EU member governments to the cause of early competition in telecoms services.

The three strongest forces are the European Commission, the impact of existing liberalisation on unliberalised sectors, and the rise of international alliances between telecoms operators. The three are complementary and mutually reinforcing.

The commission has been forcefully promoting telecoms liberalisation – in public and by stealth. Trans-European networks featured prominently in the Maastricht Treaty. And from Jacques Delors downwards, the commission has spent the last few years warning of the damage to European competitiveness if Europe fails to construct telecoms "superhighways" to match those being developed in the US and Japan.

Initially, such rhetoric was often accompanied by suggestions that significant public investment – either by the EU or member-states – should be devoted to upgrading telecoms networks. The commission soon saw that such a statist approach was neither necessary nor desirable. It was unnecessary because the telecoms industry is itself awash with funds to devote to commercial projects; and undesirable because leading analysts and some operators – notably the main US telecoms operators and British Telecommunications, the privatised UK operator – convinced policymakers that a far better way of boosting the development and take-up of new services was to abolish monopolies and allow competition to exert strong downward pressure on prices.

A mature statement of this new approach is encapsulated in the "global information society" report of the EU-wide industry group chaired by Mr Martin Bangemann, the industry commissioner.

Published in May, and broadly endorsed by EU heads of government shortly afterwards, the Bangemann report put superhighways at the heart of Europe's future competitiveness. It called for a "market-driven revolution" to make them a reality; and to precipitate the revolution it recommended that EU governments "accelerate the ongoing process of telecoms liberalisation".

The Bangemann report highlighted telecoms infrastructure, not just services, as ripe for liberalisation, citing such liberalisation as part of the "urgent action" needed to reduce high cross-border tariffs.

With a head of steam behind the Bangemann report, the commission has lost no time in pressing forward. In July it published an "action plan". The title of the first chapter – "Towards a Competitive Environment" – sums up the action envisaged. The rest of the paper listed the regulatory and legal obstacles remaining to be overcome, and a framework for addressing them.

The next key stage is a Green Paper on infrastructure competition, expected next month, which appears likely to recommend liberalisation on a rolling basis so that competing systems can be opened at the same time as the services to be carried over them are opened to competition. In practice, this means infrastructure competition across most of the sector by 1998, with investments targeted at private corporate networks permissible at once.

The commission is also drafting a directive on inter-connection, likely to be published early next year, and is putting its weight behind other practical initiatives such as a "one-stop shop" for companies seeking operating licences across the EU.

It will not be a smooth transition. Just as they opposed services liberalisation, several EU governments – notably Spain's – are fighting hard to delay infrastructure liberalisation. Their only plausible argument is that decisions on infrastructure should not be taken before the precise terms of services competition are agreed.

But even that line has infuriated Mr Karel Van Miert, EU commissioner responsible for competition policy, who has hinted darkly about using "special powers" to promote infrastructure competition if agreement is not reached at the telecoms ministers' council in November.

By stealth, the Commission has been doing its best to broaden the scope of competition allowed within existing rules. For instance, it has given strong encouragement to the EVUA, a grouping of more than 30 multinationals which is contracting jointly for a Europe-wide "private" network to secure cheaper prices and enhanced functionality.

Some operators question whether the EVUA network counts as "private", but the Commission has voiced no doubts. Most of the leading telecoms European operators bid for the contract, and the EVUA estimates that the trial contracts awarded so far could offer savings of up to 40 per cent on existing pan-European tariffs.

The EU's operators are fast waking up to the implications. Although most of them remain state-owned monopolies, they realise that they must either adapt to competition or lose significant segments of their business within a short period. Their experience in the cellular mobile field, where competeting providers are now entrenched over much of the EU, has been a salutary warning to them.

The prospect of privatisation, now sweeping across the continent, is underlining it. As the more reflective of the PTT chiefs realise, privatisation is a body blow to monopoly. The government immediately switches from being owner to being regulator, radically changing its relationship with the PTT; and since private monopolies are harder to defend than public monopolies, it also increases the pressure for rapid liberalisation in the run-up to any sell-off, or in the wake of it. In the Netherlands,

Continued on page four

Worldwide demand for cellular mobile communications

Close to 50 million users already

In Europe, the Global System for Mobile Communications – GSM for short – has become the driving force behind the growth of cellular subscriptions worldwide, reports Mark Newman

Europe tends to borrow most of its ideas about telecommunications products and services from North America.

But in mobile communications, Europe has seized the initiative and US companies are doing the unthinkable – they are giving some serious thought to importing a European-developed technology.

The pan-European GSM digital cellular telephone standard has been adopted by every country in western Europe. GSM is likely to be used across the whole of eastern Europe and is already emerging as the dominant technology in Asia and North Africa.

Since the first GSM telephones were produced in the summer of 1992, more than three million people, most of them in western Europe, have signed up to GSM services.

There are almost twice as many cellular telephone subscribers in the US as in the whole of western Europe. If current growth levels are maintained, there will be 22m US cellular subscribers and 13m European subscribers by the end of this year. The worldwide cellular population will be close to 50m.

But while more than half of the European growth this year will be derived from new connections to GSM digital cellular systems, US growth is accounted for almost exclusively by connections to analogue Amps networks which are close to reaching full capacity.

A number of operators have upgraded their networks to offer digital services, but there is little or no customer interest because telephones are more expensive and coverage levels are inferior.

US cellular operators will face competition in 1995 or 1996 from personal communications service (PCS) companies. They will use high frequencies at a similar part of the spectrum to those allocated to the UK cellular operators, Mercury One-2-One and Orange, and E-Plus in Germany. But they have to decide whether to use the same standard as the European operators, or a standard that is developed in the US.

There is every chance that they will choose the European standard – which is based on GSM – because it is a proven technology, and because manufacturers can guarantee prompt delivery and are beginning to derive the economies of scale to make PCS handsets cheap enough to compete with the analogue networks.

"There is an awful lot of interest in DCS 1800," acknowledges Dale Hatfied, the managing director of US telecommunications consultancy Hatfield Associates.

There will be three PCS licensees in each region and DCS 1800 would be an attractive choice of technology because it gives an operator the opportunity to beat its competitors to the market – "with all the PCS licences that are being issued, there is a big advantage in being first to the market," says the consultancy.

It believes that, in the longer term, spread spectrum technology, developed by US company Qualcomm, could emerge as the optimal digital cellular standard. But the handset technology is still under development, and a PCS operator which chooses spread spectrum technology risks being left behind in the race to build new networks.

While the whole of Europe is migrating from analogue cellular to digital GSM over a period of two to three years, the US cellular industry is pulling in a number of different directions and away from a standardised technical approach – "we have chaos over here in the US," observes Hatfield.

US cellular operators may well choose the European standard – which is based on GSM – because it has a proven technology record

But Europe has not always acted in such a unified manner: before GSM, cellular telephone networks in Europe operated to a number of different standards. Germany and France, for example, chose technologies which were unique to their markets.

It was this disharmony and the licensing of competing operators – rather than the merits of the GSM standard – which has helped to make GSM such a significant success for Europe.

When the two German GSM networks, D1 and D2, launched in June 1992, the old Deutsche Telekom C-Netz analogue network was creaking under the weight of new subscriptions. The quality of the service was very low by US standards and handsets were even more expensive than the new GSM telephones.

Germany, therefore, became the focus of attention for GSM equipment manufacturers. If Germany had not provided the impetus to get GSM off the ground, Europe could have experienced the same sort of difficulties in engineering the market to upgrade to digital services as the US.

GSM also owes its success to the opening up of European markets to competition. Most countries in Europe retained monopolies until the GSM standard was developed. The licensing of competitors coincided with the arrival of GSM, resulting in a massive surge in demand for cellular telephones.

The number of cellular subscribers in western Europe, which had grown by roughly a third in each of the two previous years, increased by 47 per cent in 1993.

The successful launch in Europe helped GSM to make the transition from a European to a global standard. Asia, in particular, has turned to GSM as a successor to analogue networks, many of which are close to full capacity.

In Hong Kong, GSM is now capturing the majority of new subscriptions, largely because GSM handsets are 25 per cent cheaper than analogue models.

GSM services have also been launched, or networks are being built, in Australia, China, Indonesia, Malaysia, the Philippines and Cambodia.

GSM is also emerging as the favoured standard in Africa where many countries have no previous experience of cellular networks. Two new operators, Mobile Telephone Network and Vodacom, launched GSM services in South Africa in June and already share more than 100,000 subscribers. The whole of North Africa is also adopting GSM.

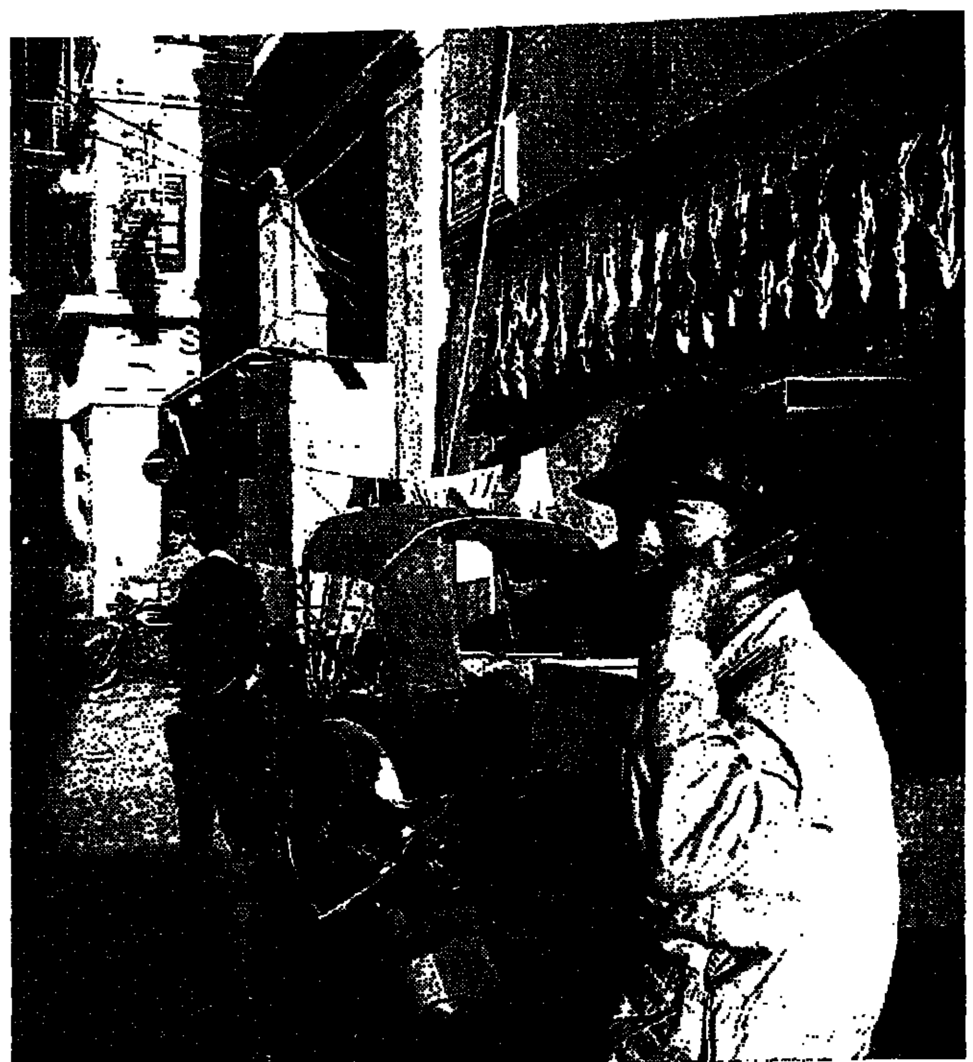
A rapid fall in the price of cellular telephones has been a big factor in the success of GSM. When services were first launched in northern Europe in 1992, the wholesale price of telephone was between £600 and £1,000. This did not matter in Germany, where telephones for the old C-Nets service were even more expensive.

But in the UK, where retailers were already selling handportable telephones for the Tacs analogue networks for less than £100, GSM could not compete.

But since 1992, the wholesale price of GSM telephones has fallen to £250 for a bottom-of-the-range model, to around £500 for a pocket telephone. Dealers heavily discount the price of telephones because they receive cash bonuses for each new subscriber they connect to their network. In Germany and the UK, these bonuses are so large that some dealers are giving away telephones provided that the subscriber signs up to a service for a minimum period.

GSM is proving a remarkable success for the western European telecommunications sector. It has become the driving force behind the growth of cellular subscriptions worldwide and is now threatening to make an impact in the US, the world's biggest cellular market.

☐ *Mark Newman writes for Communications Week International, based in Paris*



In Asia, there is a surging demand for mobile communications. Pictured here, amid dried fish and rickshaws, a motor cycle messenger in Macau, near Hong Kong, pauses to phone his office. Picture: Sarah Murray

Supplier profile: Siemens faces a challenge as rivals move ahead on prices and technology

German telecoms giant roused by call of the new

The German industrial group Siemens is facing challenges in one of its strongest areas: telecommunications. It remains one of the world's telecoms leaders, with equipment ranging from multi-million-dollar telephone switching systems to mobile phones representing nearly a quarter of its DM81.6bn sales last year. But there are threats to the group from three sources: privatisation, recession and technology.

Until about four years ago, Germany's state-owned telecoms monopoly, Deutsche Telekom, bought much of its switching and transmission equipment from Siemens and did not drive too hard a bargain over price – "it was a cosy arrangement between PTT and domestic supplier," says Mr Jeremy Ledger, telecoms analyst at Dataquest. But it was an arrangement that could not last, as the experience of other countries proved.

By the late 1980s, British Telecommunications, the privatised UK operator, was adopting more open procurement policies, as were Vodafone and Mercury, newly-licensed competitors in the UK mobile and long-distance sectors respectively.

Siemens was not a spectator on the UK scene: in 1989 it bought a 40 per cent stake in GPT, the GEC telecoms equipment subsidiary and one of BT's principal suppliers. But it was not under the same pressure at home. Indeed, the fall of the Berlin Wall in November 1989 led to an Indian summer for the old regime in the form of a DM60bn Deutsche Telekom programme to upgrade eastern Germany's antiquated phone system.

Dr Erwin Hardt, head of Siemens' public communication networks group, rejects accusations by North American suppliers that Deutsche Telekom pays – or paid – up to four times the going international rate for its network equipment – "they are not comparing like with like," he insists. "Our prices typically include associated software, while US operators pay for software on top. Take the two together, and our prices are about the same."

However, Dr Hardt admits that the Indian summer is over.

The European recession was intensified for Siemens by a drop in orders from eastern Germany and by the growing impact of privatisation as operators far beyond Britain began putting unprecedented price pressure on their suppliers.

Deutsche Telekom was one of them. Again, the figures are in dispute. Dr Hardt says that prices for transmission and switching equipment have fallen, in real terms, by about 7 per cent in each of the last three years, and "somewhat more" in Germany. Dataquest's Mr Jeremy Ledger says that prices for key transmission products have fallen in Germany by as much as 20 per cent over the past year as Deutsche Telekom has awarded large orders abroad.

Heinrich von Pierer, chairman of Siemens: a strong commitment to research and development

Either way, the trend is alarming for Siemens. Last year it reported a fall in new orders and looks on nervously as Alcatel of France – which has a substantial German telecoms business – repeatedly downgrades its profit forecasts. Few question the strength of many of Siemens' product ranges, notably its EWSD switching system, or its commitment to research and development, which accounts for some 15 per cent of sales in the communications divisions. But alone they are not enough to sustain margins and guarantee market share.

Then there is the question of new technology, notably the burgeoning demand for mobile communications. Both Alcatel and Siemens have been dramatically outclassed in the market for cellular infrastructure and handsets by two smaller European suppliers, Ericsson of Sweden and Nokia of Finland. Motorola, the US electronics group, also has a significant European presence in the mobile sector, where it is a leading handset supplier.

Dr Hardt claims that the Scandinavian suppliers were "lucky" that the cellular boom started in the Nordic states "where all those isolated summer homes created an instant demand." He is convinced that Siemens' "greater and superior" R&D, particularly in the switching technologies where a number of cellular suppliers are "weak," will triumph "ultimately."

Yet Dr Dietrich Botsch, of Siemens' private communications systems group, recognises the scale of the task facing the group if it is to establish itself as a leading mobile communications force: "We missed out on the analogue developments in the cellular field, but are concentrating our resources on new digital GSM systems. We believe we can generate the volumes that will make us a serious contender."

Siemens is also attacking its high cost base. It has just opened a software house in India, where overheads are significantly lower, and plans to employ 1,000 programmers within three years. Within Germany, moves are afoot to introduce seven-day working: "Our unions now realise that such steps are important to productivity," says Dr Botsch.

Then there is marketing. Like the rest of the telecoms industry, Siemens has had marketing thrust upon it. The telecoms divisions now employ more than 300 marketing staff where five years ago there were 15. Although two-thirds are engineers by training, their career development and skills are fundamentally different from the mono-engineers of old.

"It used to take two years to get from a first idea to a finished telephone," says Dr Botsch. "Now it takes six months. Two years is the entire life-cycle."

Andrew Adonis

European liberalisation trends

Continued from page two:

the privatisation of KPN, the state operator, earlier this year appears set to be followed by the licensing of a competitor long before the EU's 1998 deadline.

Furthermore, "private" contracts such as that placed by the EVUA, and the rise of big transatlantic alliances between telecoms operators, have alerted most of Europe's PTT's to the dangers of isolation. The larger PTTs have all signed up to one or other of the three emerging alliances, while the smaller PTTs are scrambling to get on board.

The alliances do not in themselves necessitate domestic liberalisation; but since their *raison d'être* is to compete in other markets, they increase the pressure on operators and their governments to concede open access at home.

Telefonica, the Spanish semi-state operator, is an object lesson in this regard. Barely a year ago the company was fighting tooth and nail against any EU deadline obliging it to face competition in the Spanish public voice market. Then Banco Santander, one of the largest Spanish banks, signed a deal with British Telecom to develop a national private network selling private and value-added services to the Spanish corporate sector. And Telefonica suddenly realised it was the largest of the EU's operators to be outside one of the emerging international alliances.

Telefonica is now a full member of Unisource, the alliance of the Dutch, Swiss and Swedish operators, which has also linked up with AT&T of the US. And the Spanish government, with Telefonica's acquiescence, has agreed to forego its five-year extension to the 1998 competition deadline. It is not the last such volte face we are likely to see before 1998.

Battle for liberalisation in the US: see page six

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Tony Jackson on the bottlenecks facing legislation on deregulation

US monopolies under attack

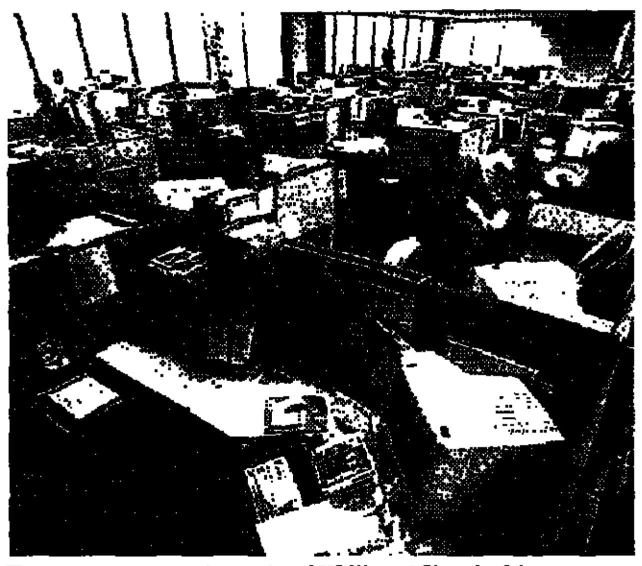
The liberalisation of US telecoms is a war conducted on a number of fronts: in Congress, in the courts, in state legislatures and in regulatory agencies. The significance of the bill which collapsed last month in the US Senate lay in its attempt to draw the various strands together. Its failure means that, for the time being, the deregulation process reverts to a state of apparent chaos.

However, there are certain basic principles at work. The regulatory barriers at issue are simple enough: long-distance telephone companies may not operate in local markets, and vice versa; telephone companies may not operate cable networks; and regional telephone companies may not manufacture telephone equipment. There is general agreement that the first two, at least, should be scrapped or modified. The argument is over the terms.

For the government, this involves a familiar type of trade-off. The Clinton administration gives a high priority to the construction of a digital super-highway, capable of delivering voice, image and data to homes and businesses throughout the US. This can only be done with private sector money. But, as long as companies are barred by regulation from roaming the super-highway at will, they will be the less ready to invest.

Before setting all companies free to compete across the network, however, the government is obliged in fairness to ensure they compete on equal terms. The snag is that while long-distance telephone companies compete with each other, as do cable companies, regional telephone companies – the so-called "Baby Bells" – do not. They are still safe, immensely profitable monopolies: and as such they form the chief bottleneck in the deregulation process.

In tackling this problem, the authorities face another familiar trade-off. As in other countries, the regional companies are obliged by statute to provide a universal service to the public. Their *quid pro quo* for this is the monopoly: for if competitors were given free access to the market, their natural inclination would be to poach business in lucrative urban areas and leave the original companies to lose money supplying telephone services to remote towns and villages.


The new customer service centre of US West at Phoenix, Arizona

Various schemes have been proposed to get round this, the most popular being a "play or pay" system whereby all competitors in a local market would contribute to a central fund from which loss-making services could be funded. In the meantime, however, the local monopolies remain hugely profitable. As a result, it looks as if the regional companies will not surrender their monopoly status until they are forced to.

This point was brought home by the collapse of the telecoms bill last month. The regional companies were offered access to the long-distance market in exchange for loosening their local monopolies. According to Mr Royce Holland, president of MFS Communications and a vocal critic of the regionals, this ultimately led them to kill the bill.

"Some of them were more in favour of the bill than others," he says. "But it came down to an issue of whether they would try to hold on to their monopolies for another year, or try to get into long distance. It looks like in the last few weeks the monopolists won."

But the monopolies are under attack, anyway. MFS Communications is a case in point. One of a new breed of companies known as competitive access providers, MFS takes advantage of gaps in the legislation to provide high-tech telephone, video and data services to big business and government customers, in competition with the local telephone company. Set up in 1987, MFS now has a stock market value of around $2bn.

For Mr Holland, the point of the telecoms bill was simply that it would have speeded up his company's development – "our approach is basically state by state," he says. "Big states, like New York, Illinois and Massachusetts, are moving towards competition, anyway. But in a state like Georgia, where we have a significant position in Atlanta, it will probably be five years before we get proper competition. If we'd got a bill, it would have accelerated the move towards competition across the country."

Another threat to the local monopolies became real last month with the finalisation of the AT&T-McCaw merger. The combination of America's biggest long-distance phone company and its biggest mobile phone operator means the old nation-wide phone system is recreated at the cellular level. The deal has, of course, been bitterly opposed by the regional companies, but their chances of blocking it in the courts seem slim.

To add to their problems, the government has decided that the present system of cellular licences – whereby the regional companies plus one competitor apiece are allowed to run regional duopolies – is not competitive enough. Towards the end of the year a clutch of broad-spectrum licences known as personal communication services (PCS) licences will be auctioned off to the highest bidder. There is already speculation that the bidding process will force alliances throughout the industry, the result being further pressure on the regional incumbents.

Not that the regional companies are incapable of looking after themselves in other respects. Most of them are conducting court cases to overturn the ban on them owning cable companies, and the industry gives them a reasonable chance of success. More speculatively, they are bringing a collective action seeking to overturn the ban on them entering the long-distance market. If this comes to anything – which seems on balance unlikely – it will take 18 months to come to fruition.

By that time, the odds are that this year's failed telecoms bill will have been revived. The regional companies are under fire for having blocked it, and a number of influential senators are reportedly very cross. Informed observers who had bet against the bill going through this year are now betting on its passage next time. But, whatever form the legislation finally takes, its task will merely be to tidy things up and hurry them along. The momentum for change in the industry will carry on regardless.

Call charges fall for fixed and mobile communications

New services abound for businesses in the UK

It could be argued that the success of competition in the UK has strengthened the case for telecoms liberalisation across Europe, writes **Paul Taylor**

Competition and new technologies have transformed the shape of telecommunications in Britain in the ten years since British Telecommunications was privatised. New network operators and service providers have entered the market and prices for both fixed and mobile services are tumbling.

Oftel, the UK telecoms regulator, has forced BT to bring its call charges down sharply to reflect the falling cost of delivering calls as new technology cuts overheads. The latest price reductions announced by BT early last month mean that, in real terms, UK long-distance calls are barely a third of the cost a decade ago.

Meanwhile, a new band of telecom companies have appeared providing specialist value added network services (Vans) such as electronic digital interchange (EDI) and electronic mail. Others, many of them with foreign parents, are building advanced digital networks, including some dedicated to mobile data. As basic voice telephony services become more of a commodity item, "re-sellers" leasing spare capacity and repackaging it at knock-down prices, have begun to appear.

In cellular mobile telecommunications, consumers in some parts of Britain can now choose from an array of competing tariff structures offered by four competing network operators on four digital and two older analogue networks. Other competitors offer mobile services over public access mobile radio and satellite-based networks. All this has been achieved against the backdrop of government policy which has turned the UK into the most liberalised telecoms regime in Europe and in some areas – for example, cable telephony – made Britain a test-bed for the world.


Mercury has captured about a quarter of the large business market and two-thirds of the City of London's outgoing traffic Picture: Trevor Humphries

The privatisation of BT and the licensing of Mercury Communications, a subsidiary of Cable Wireless in 1984 to build a competing national network, heralded a period of unprecedented change in the UK telecoms industry.

Ten years later, BT still boasts a 90 per share of the total market for telecoms services in the UK, and according to most projections, will only loosen its grip by a few percentage points a year. Nevertheless, business customers in particular can now select an ever-wider range of telecommunications services from a growing number of vendors.

Mercury has captured about a quarter of the large business market and about two-thirds of the City of London's outgoing traffic. Mercury – which initially competed primarily on price – is, however, now facing tougher competition from a leaner, more aggressive BT, and from new entrants pursuing the lucrative business market.

These new competitors have sprung up in the past three years since the government decided to end the BT/Mercury long distance duopoly and announced its willingness to license new public operators, either building their own networks or reselling services provided over existing networks.

At the same time, the government went one step further and became the first country in the world to allow cable companies with franchises in urban areas, to build combined TV and telephony networks – thus providing direct competition in the "local loop."

In order to give the cable network builders a head start, BT was banned from offering entertainment services over its telecoms network for a decade. As a result, cable companies – many US-owned – have piled into the UK market attracted by the prospect of a double income stream. Where new cable network operators have offered telephony services, the take-up in some areas has been running at more than 50 per cent.

Cable franchises have so far installed over 500,000 telephone lines in more than 30 areas and the Cable Television Association has forecast that exchange line connections will rise to more than 700,000 by the end of this year. Although this still only represents a small dent in BT's dominance of the residential market, BT has nevertheless felt the need to counter-attack by sending "win-back" teams into areas targeted by the cable companies.

Nevertheless, Dataquest, the market research organisation, forecasts that business and residential customers for cable telephony will be renting 1.5m telephone lines out of a total of 29.3m on the public switched telephone network in 1997, representing five per cent of the market.

By the turn of the century, Barclays de Zoete Wedd analysts suggest cable could be costing BT up to £1bn a year in lost revenues. BT is expected to recoup some of that lost revenue in charges for linking cable systems into its trunk network, but it will be competing for business with Mercury and other new long-distance telephone companies.

Since 1991, more than 40 new operators have been licensed to provide telecoms services in the UK. Most of the licenses are for specialised or regional services but some, including a license awarded to Energis, a subsidiary of the National Grid, are for national networks.

Energis, which began operations in June, has built a 3,500km nationwide optical-fibre network using National Grid's pylons. Last month, Energis announced that it was teaming up with Colt, which provides local network services in London, to provide seamless national telecom services. Colt has 55km of fibre network installed around the City of London, serving nearly 170 buildings and has also extended its network into Westminster and Docklands.

Colt is one of three new operators now building their own infrastructure in the City specifically to serve the corporate sector. Another, MFS which was launched in March this year, offers free line-rental to customers with bills of £600 or more per line per year. Its fibre network covers most of the City and Docklands and is being extended to Southwark and Westminster.

The City has also attracted a growing array of re-sellers – operators leasing capacity from others and re-selling it at a discount to standard tariffs, often providing their own switching facilities and direct links to customer premises. Three US groups, Worldcom, Sprint, and ACC and Esprit, a private UK-based operator, are the among the most prominent re-sellers.

The re-sellers concentrate on international traffic, but most also offer a re-sale service within the UK. Worldcom, which set up in London in 1991 and aims to undercut Mercury business prices by between 10 and 15 per cent, now has more than 250 business customers and claims to have cornered nearly three per cent of the UK's outgoing international telecoms traffic.

Competition is not, however, limited to fixed-line services. Britain's cellular telephone industry is amongst the most developed and competitive in Europe.

In the UK, the government seized upon the advent of cellular telephony in the early 1980s to further foster competition. From the outset, two cellular operators were licensed and BT was only allowed to take a 60 per cent stake in one of them.

The government's aggressive policy towards competition has not always worked, however – Telepoint services such as Hutchison Telecom's ill-fated Rabbit network, based on digital cordless telephony, proved to be a business flop in the early 1990s despite the financial backing of international consortia.

Similarly, only two Personal Communications Networks (PCN) systems have been built, although four licenses were originally awarded. Nevertheless, most analysts agree that the UK's cellular mobile telephone network strategy has been effective in stimulating subscriber growth and effective price competition.

The UK now has four cellular network operators with 2.6m subscribers between them: Vodafone, launched as a subsidiary of Racal Electronics but de-merged in 1991; Cellnet, a joint venture between BT and Securicor; Mercury One-2-One, a joint venture between Mercury and US West, one of the US regional Bell companies; and Orange, whose largest shareholder is Hutchison Whampoa, the Hong Kong conglomerate.

Vodafone and Cellnet, the original competitors, both have analogue and digital GSM networks, while One-2-One, launched last year, and Orange, which was launched earlier this year, were the first PCN networks in the world.

Fueled by falling handset prices, aggressive marketing and tumbling tariffs, these cellular services have proved increasingly popular with net new connections to mobile networks overtaking fixed network connections to BT and the cable TV companies for the first time last December.

One-2-One has been particularly bold, offering residential customers free off-peak calls in an effort to broaden the base of mobile subscribers, while Orange's strategy has been directed more towards business customers.

As with fixed telecoms, there is little doubt that competition between cellular operators has helped bring prices down for the first time, broadened the range of services on offer and helped encourage subscriber growth. Perhaps, more contentiously, the success of competition in the UK, has strengthened the case for telecoms liberalisation across Europe.

INTERNATIONAL TELECOMMUNICATIONS 8

JAPAN

Further turbulence ahead

The deadline is approaching for Tokyo to make a long-term decision on the future of telecommunications in Japan, reports **Michiyo Nakamoto**

The past few years have been a tumultuous time for the more than 210,000 employees of NTT, Japan's huge telecommunications company.

Just under a decade since it was privatised, NTT has had to embark on a wide-ranging restructuring effort, fight a fierce battle against newcomers in the profitable long-distance market and venture for the first time in its history outside the domestic telecommunications business into the 'unknown world' of multimedia.

But if the past few years of frenetic activity at NTT have unsettled its employees, more accustomed to the bureaucratic ways of the former monopoly, the years ahead promise to be even more turbulent.

Next year, the Japanese government is expected to make a long-overdue decision on the future of NTT, which is still over 65 per cent owned by the finance ministry. They are scheduled to conduct a telecoms review which will have implications far beyond NTT's own operations and is likely to change the shape of Japan's telecommunications industry in the years to come.

As in many other industrialised countries, the Japanese government faces a pressing need to review the regulatory environment surrounding its telecoms sector and to draw up a vision of what the industry should look like in the 21st century.

Although Japan was relatively early in deregulating its telecoms industry with the privatisation of NTT in 1985, the measures it adopted back then were half-baked. Rather than break up the former telecoms monopoly into separate regional or business entities, the Japanese authorities preserved NTT as a dominant operator with national coverage and introduced competition only into the domestic long-distance and cellular markets. NTT was kept in control of the crucial local network.

While the Ministry of Posts and Telecommunications made it known on reviewing NTT's status in 1990 that it favours breaking up NTT, the decision was deferred for five years.

The result of the authorities' decision to allow only partial deregulation of the telecoms sector so far has been that almost ten years after NTT was privatised, the Japanese market suffers from the adverse effects of a lack of competition.

The price of telecom services in Japan, from simple phone calls to more value-added services, is still relatively high, particularly for long-distance calls, compared with what is charged in more liberalised markets.

The tight regulatory environment and the lack of competition has stunted the development of new services, which are expected to play an important role in stimulating future economic development.

The experience in the cellular market has been somewhat different, with a second phase of liberalisation in April this year stimulating greater competition and rapid growth. However, even in the relatively open cellular market penetration is low compared with many countries in the west due to high user charges.

Japan's business community now demands increasingly advanced telecom services, but a traditionally tight regulatory environment has held back the development of new services

Tokyo's telecommunications authorities have indicated recently that they are in favour of further deregulation of the market in preparation for the much more expanded information industry extending from telecoms to computer communications and broadcasting that is expected to emerge within the next decade or so.

As the deadline approaches for the Japanese authorities to make a long-term decision on NTT and the future of telecommunications in Japan, and as it has become increasingly evident that the US is leading the way in building an advanced information society, the MPT has appeared increasingly favourable towards changes in the industry, not only to catch up with the US but to ensure the country's future economic and social well-being.

Mr Shun Oide, Japan's Minister of Posts and Telecommunications, emphasised the importance that telecoms is expected to play in the country's future development in addressing a gathering of international telecoms ministers in Kyoto last month.

Japan faces various difficult issues, such as dealing with the unprecedented ageing of its society, rectifying the excessive centralisation upon Tokyo, converting the framework of industry and employment to create products and services with high added value through effective use of knowledge and skill, and realising life-styles for our citizens which bring both comfort and an enhanced spiritual quality of life, Mr Oide says.

These issues "can no longer be solved with the conventional methods of industrialised society," he notes. "Instead, we believe that an approach through information networks, allowing the best use of information and expertise, is essential."

Telecommunications, together with other forms of information transmission, and the future multimedia services they will provide, are also expected to become a key source of economic activity.

The MPT estimates that with an advanced telecommunications infrastructure in place, the multimedia market will grow to a leading industry with a value of Y123 trillion yen and creating 2.43m new jobs by 2010.

Such considerations will form the basis for the authorities' decision next year on the fate of NTT and the future of Japan's telecoms industry.

It has become increasingly clear to the authorities that deregulation and greater competition are crucial in preparing the Japanese telecoms industry for future growth. In recent statements, the MPT has indicated that it is looking to the CATV companies to provide further competition to telecom operators.

"It is important to establish the fibre-optic network efficiently through the competition of private companies. The telecommunications carriers and CATV operators are expected to build networks competitively," a recent MPT report states.

However, the need to nurture a strong information industry in many ways complicates matters.

If greater competition in the market were the only goal, there would be a strong case for breaking up NTT, a step the telecommunications ministry has long favoured.

While competition on some vital intra-city lines has been heated, with three new common carriers taking over 50 per cent of traffic on the important Tokyo-Osaka line, the three long-distance carriers' share of the intra-prefectural market last year was just 29 per cent.

NTT has been able to keep a tight grip on the long-distance market through its monopoly on local lines which, in effect, has allowed it to control access charges and gain information on its competitors' costs.

"The minimum pre-requisite for the three new common carriers' entry into the long-distance market was the breaking up of NTT into long-distance and local businesses," said Mr Kazuo Inamori, president of Kyocera and chairman of DDI, in a recent interview. However, plans to build an advanced information industry have brought other considerations into the picture.

While competition is important in stimulating new developments, the huge investment required and wide-ranging business territory to be covered by communications operators calls for large, integrated companies to support the information industry.

As Mr Masashi Kojima, president of NTT, argues: "Telecommunications companies from now on will provide a full range of services from telephone and fax to personal computer communications and cable television. Competition in future will be between large companies and there will be very little room for companies than can only compete in parts of the market."

Rather than breaking up NTT – a move that would create smaller companies which would be less competitive in the global multimedia race – the authorities should work towards integrating smaller companies into a larger company that can offer a full range of services, Mr Kojima asserts.

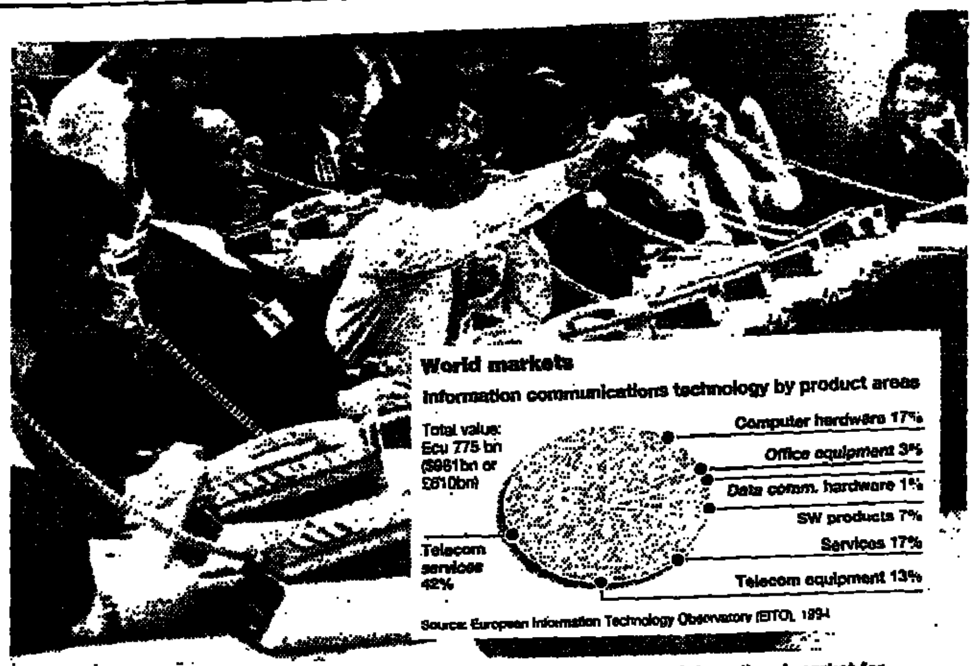
NTT, which has already converted trunk lines to optic fibre, also believes it is the only company that is capable of building Japan's super highway infrastructure singlehandedly. Breaking the company up, as the MPT envisions, would weaken its ability to do so, the company argues.

The growing view among industry watchers is that despite arguments against divestiture, there is a strong chance the MPT will in the end follow its initial instincts and break up NTT at least into separate long-distance and local businesses. The impact of such a move, combined with deregulation of the CATV industry announced this year, is expected to stimulate the development of Japan's telecom and cable industries into the information industry of the future.

Increased competition from cable operators provided an incentive for the US Regional Bell Operating Companies to modernise their networks to provide advanced communications capabilities, which in turn, helped them to improve profit margins, notes Mr Dargan at S.G. Warburg.

Greater competition upon divestiture could also encourage the MPT to relax rules which currently restrict NTT from offering cable TV and other services, Mr Dargan points out.

When that happens, Japan will move one step closer to the US in building companies that can offer the public a full range of multimedia services.



Cyclical economic changes outside of the US are accelerating changes in the international market for informational communications technology, according to reports by the European Information Technology Observatory. These changes include the maturation of the multi-systems market, the falling prices for personal computers, and the shift from building budgets around new hardware to focusing on software and services.

INFORMATION 'SUPERHIGHWAYS'

The debate intensifies

Superhighways are flavour of the month with politicians and techno-buffs alike. But while they attract public attention with promises of science fiction-type services, they are also a target for cynics who question their commercial viability, writes **Monica Horten**

The debate is hotting up over new superhighways – telecommunications networks that will carry multi-media services to homes and businesses. The issues are whether or not these superhighways should be laid automatically in every town, village and street, whether or not there is a return on the investment – or whether they should only go where they are profitable.

The telephone companies want to be free to develop the superhighway according to commercial demand. But politically, they are under pressure to ensure that all members of the population, rich and poor, rural and urban, have equal opportunity to access it. Information is a now a commodity, and people would be disadvantaged by not having access to it.

In the UK, the Liberal Democrat leader Paddy Ashdown said recently that he feared a society of "information haves and have nots." The information super-highway could be used to widen the gap between rich and poor, between the affluent urban areas and remote village communities. And US vice president Al Gore laid down in his original proposal for the National Information Infrastructure (the official name for the US superhighway) that the information superhighway must be accessible to all people everywhere.

The superhighways will be constructed from fibre optic cable because fibre has the necessary capacity for transmitting multimedia services. Fibre can carry data at speeds up to 2 gigabits per second. Old fashioned copper is limited to 64 kilobits per second.

But a fibre optic network is expensive, especially if the fibre is to replace all of the existing copper lines into individual premises – known as the local loop. BT, for example, estimates £15bn to take fibre to the majority of UK population, rising to £20bn to reach the most remote parts of the country. The phone companies are concerned about getting a return on that investment. Operating the superhighway profitably will not be as easy as on the existing copper networks – and for that reason, the phone companies are reluctant to invest in the fibre infrastructure until they are sure of getting a return.

Industry experts argue that the present method of charging for calls – where prices are determined by the distance of the call and the capacity of the line – cannot be sustained on a fibre network – "when you have fibre in the local loop, you have an infinite supply of capacity. For anyone to sell that on a bandwidth related tariff is a nonsense," says Malcolm Matson, chairman of National Telecable.

BT is exploring new ways of tariffing as part of a trial of multimedia services in Ipswich, Suffolk. John Drew, of BT's corporate strategy department, recognises that changes will be needed – "we don't want to be constrained by 80 years of existing tariff structures." Hepoints out that the information superhighway is not the same as the phone service as we know it today. The difference lies in who provides the content – "in voice telephony, it's simple: the users generate the content. In multimedia, the users do not generate the content. They access it on a service."

Al Gore: 'Superhighways must be widely accessible'

In commercial terms, the cost of providing voice telephony is the cost of the line. On a superhighway, the providers of the service want payment, and therefore the cost of the service embraces the content as well as the line.

Mr Matson believes the solution is to separate the ownership of the fibre infrastructure from the service provision. Such a structure, not unlike the current set-up for mobile communications in the UK, would provide more flexibility for service pricing.

"The separation of infrastructure from service provision is certainly where the industry is going to end up. But it is not something the telephone companies will do voluntarily," comments Andrew Entwhistle of the Cambridge-based telecoms consultancy, Analysys.

Demand for multimedia services is another concern. In the long term, new services – ranging from dial-up books and compact disks, to interactive education could be made available. But in the immediate future, the main demand is seen to be entertainment – movies and computer games. The BT trial will concentrate on a video on demand service, as will a similar trial by Time Warner in Orlando, Florida.

The theory of video-on-demand is that there is an existing market for video rental, which would be largely replaced by an on-line market. But Mr Entwhistle casts doubt on its potential size: "There is a major threshold determining how much people will spend to get more than cable TV. The initial hypothesis that people would double their expenditure to get interactive TV has been exploded. There's not much evidence that people will do that."

John Drew believes that superhighways will actually need to begin with a much more familiar service: broadcast entertainment. It would be a more obvious wedge to put in the consumer's door, and one from which to introduce the new multimedia services in a gradual way. This is why BT, for example, insists it wants its licence altered to permit it to carry broadcast entertainment before it will install fibre to every home. The phone companies therefore question the political assumption about people's right to have access to the superhighway – especially if the phone companies, not national governments, are to foot the bill: "What service do people have a right to?" asks Mr Drew.

The idea that everyone has a right to phone services stems from the days when the phone network was in its infancy. The telephone gave people a facility to communicate with others. The super-highway, however, looks like being primarily a medium of entertainment: thus, there is a case that the commercial market should dictate who gets it. Put in simple terms, people do not have the automatic right to dial-up Madonna movies. And if people do not have a right to it, and there is no clear profit in it, they won't get it.

In the UK, the Telecommunications Users Association is pessimistic about the chances of fibre connections to every home – "realistically, it will never happen," says John Skarratt, TUA director.

However, the phone companies are pursuing a technical alternative to fibre, which may provide a commercially expedient solution. Known as ADSL (asymetric digital subscriber loop), the new technology operates at up to 6 megabits over an existing copper phone line. It is nowhere near the speed of fibre, but could be sufficient for the entertainment and other consumer-oriented services.

INDIA: confusion and delays have hindered the race to catch up

The target is 10m new lines

India has one of the least developed telephone networks in the world – only 140,000 of its 576,000 villages have phones, reports **Stefan Wagstyl**

Line checks: children watch a telephone engineer make repairs in Calcutta Picture: Tony Andrews

Three years after the start of the economic liberalisation programme by India's prime minister, Mr PV Narasimha Rao, the nation's telephone networks are being opened to private investment.

Albeit with many important issues left unsettled, government officials are ending the state's monopoly of basic telephone services and inviting bids from private companies, including foreign groups, to help transform one of the world's least developed networks.

The conditions under which private investment will be permitted were published only last month, so few would-be bidders have had time to study the fine print. Moreover, the precise relationship between the private operator and the state network has yet to be decided, including crucial matters such as pricing and revenue-sharing.

Nevertheless, the prospect of winning even a small share of the undeveloped Indian market, with its population of 890m people, has drawn expressions of interest from all over the world. The telecommunications ministry says that 100 groups have filed outline proposals.

With only eight lines per thousand people, India has one of the least developed telephone networks in the world. China has 17; and Malaysia, 130. Only 140,000 of India's 576,000 villages have telephones. The country needs telephones not only to fulfil its aim of increasing international trade and investment but also to provide a basic communications network for its people.

Until this year, the government's aim was to increase from the number of lines from 5.8m in early 1992 by 7.5m to 13.3m by the end of the current five-year plan in March 1997. But this would have left some 2.5m people still on the waiting list. So, the target was raised in May to 10m new lines.

With its own funds squeezed by the need to control public spending, the government is relying on private companies to raise much of the extra Rs230bn it needs on top of Rs330bn it had previously earmarked from public funds for 1992-97.

Big though it is, the total may not be unreachable. Even before the government announced its new telecommunications policy, permitting private investment, in May, private groups, including foreign companies, had submitted to the government 21 plans together worth $4bn (£2.5bn) for telephone networks. Among the foreign companies are industry leaders such as US West, AT&T, and Motorola of the US, Siemens of Germany, and Japan's Fujitsu.

But it will be difficult to meet the government's demanding time-table, given the department's past record in accommodating the private sector. With 46 trade unions, representing 470,000 workers, the department has long been suspicious of changes which curb its influence. Since 1992, when value-added services such as cellular telephones and voice mail were liberalised, the department has been entrusted with handling potential competitors from the private sector. The result has been confusion and delay. Cellular telephones contract awards made in October 1992 were challenged in court by unsuccessful bidders in a case which went to the Supreme Court, which then ordered the ministry to reconsider the bids. A new award was expected in early October.

The acrimonious debate inside the department which has accompanied the launch of the new policy for basic services does not bode well for its smooth implementation. Mr Nagarajan Vittal, the former telecoms secretary, who was transferred out of the ministry a month ago, lost his job because he became involved in a public row with his minister, Mr Sukh Ram.

Mr Vittal, brought into the ministry last year to spearhead pro-market reforms, fought hard to make the new policy as liberal as possible. Mr Sukh Ram, supported by the department's trade unions, adopted a more cautious approach. Mr Narasimha Rao felt he had no choice but to move Mr Vittal for abusing his position as a civil servant in speaking too publicly.

Mr Vittal's departure was followed by the announcement of details off the new policy, which include a 49 per cent cap on foreign investment in any private carrier. Private companies will also be limited to providing local networks – they will be barred from operating the much more lucrative long-distance and international services.

Companies will be free to bid for licences in 18 regions, which roughly correspond with India's states. Only one private carrier will be permitted to operate in each region – but will face competition from the existing state-owned service.

Licence-holders will be required to offer lines in rural districts as well as the far more lucrative towns and cities. The licences will run for 15 years and there will be no restriction on the number of licences awarded to any one company. Mr Sukh Ram has said he hopes the first private carrier would start operating in 1995.

There will also be a new regulatory body – the Telecom Regulatory Authority of India, which will oversee the private operators. It will not have a separate statutory existence from the telecommunications department.

The guidelines have provoked a mixed response from industry. There is relief that Mr Vittal's departure has not further delayed the progress of the new policy. But there is also concern that the arrangements for pricing and revenue-sharing have not been announced. The published policy leaves the telecommunications department with ill-defined powers to control the negotiations with bidders, creating great scope for delays and for corruption.

However, some executives argue that the lack of clarity is the price companies will have to pay for investing in the market at the beginning of its development. They believe that the ultimate prizes will justify the cost and risk of entering the industry early.

In Canada, business users enjoy one of the world's most efficient phone systems. Pictured above are money traders at the Canadian Imperial Bank of Commerce in Toronto Picture: Mike Blake, Reuter

CANADA

Landmark rulings

New national policies in Canada will bring vigorous competition between the telephone companies and cable-TV operators, reports **Bernard Simon** in Toronto

Canada has moved more cautiously than many other industrial countries to lift the regulatory barriers which have long stifled competition in the telecommunications market. The slow pace of change has given consumers fewer choices and has arguably held back technological innovation.

On the other hand, Canadians continue to enjoy one of the world's most efficient phone systems, and among the lowest charges for basic service. However, the winds of change are likely to blow more strongly in the wake of a series of landmark rulings in mid-September by the Canadian Radio-television and Telecommunications Commission (CRTC).

The CRTC's new policy, which is expected to form the regulatory framework for the next 10 to 20 years, opens the way for much more vigorous competition between the established provincial phone companies, cable-TV operators and the plethora of resellers which have recently gained a toe-hold in the long-distance market. (Resellers offer discount prices by leasing lines at bulk rates from the phone companies).

"The Commission has determined that barriers to entry, as well as restrictions on the participation of telephone companies in emerging information and transactional telecommunications service markets, should be removed," concludes the CRTC in its 165-page report.

Under the ruling, the hefty cross-subsidy between long-distance and local calls will be significantly reduced by allowing local phone companies to push up their charges by as much as 40 per cent over the next three years.

At the same time, the CRTC will relax price regulation replacing a rate-of-return yardstick with a more market-oriented system of price caps – "this should lead to price stability for consumers and and greater flexibility for telephone companies to invest in a more modern infrastructure and to introduce new services," says the CRTC.

These reforms are likely to encourage newcomers to enter the local market in competition with the provincial phone companies, such as Bell Canada (Ontario and Quebec), BC Telecom (British Columbia) and AGT (Alberta), which presently have a monopoly on local services. But the telcos will also be free to spread their wings, both as carriers and content providers.

Although they will not for the time being be granted broadcast licences, they will be able to provide distribution facilities for broadcasters, including cable companies.

Analysts at Nesbitt Burns, a Toronto securities firm, predict that the ruling will benefit almost every sector of the telecommunications industry.

The big phone companies "asked for a more freely competitive market where they would have the flexibility to use their experience, expertise and considerable reach to offer a broad range of services to customers," Nesbitt Burns says in a report. "This decision goes a very long way in that direction."

Resellers are likely to reap the benefit of lower charges for access to the telcos' switching facilities – "in the medium-term, the advent of local competition could lead to some profitable expansion opportunities," adds Nesbitt Burns.

Cable-TV operators will also be able to broaden their horizons, without any siginficant erosion of their existing businesses. Within each sector however, there are bound to be winners and losers.

Judging by recent experience in the long-distance market, where competition began in 1992, some surprises are also in store. The telephone companies, which have long had a reputation as slow-moving behemoths, have turned out to be unexpectedly agile. Bell Canada has cut its long-distance charges by an average of 30 pc since 1987, and by up to 60 pc for high-volume users.

Productivity improvements, including the elimination of 5,000 jobs, have shaved 11 per cent off Bell's operating costs per access line over the past five years.

By contrast, business has been unexpectedly tough for the plethora of newcomers in the long-distance market. Unitel, which pioneered competitive long-distance services, lost C$82m in 1992 and another C$525m last year.

Most resellers do not expect to be in the black until 1996 at the earliest. STN, one of the most aggressive resellers, recently announced a thorough restructuring, including the departure of its chief executive, after seeing its share price tumble from a peak of C$7.63 in the second half of last year, to little more than C$2 in mid-September.

Even before the recent CRTC decision, the phone companies had begun to secure their position in the converging worlds of telephony, broadcasting, computers and consumer electronics.

Stentor, which is the long-distance consortium of provincial telcos, unveiled plans earlier this year for an open-access, interactive broadband network.

The coast-to-coast project – known as the Beacon iniative – involves an investment of about C$8bn, and aims to reach 80-90 per cent of Canadian homes and businesses within the next decade. Stentor is also in the process of setting up a multimedia company to develop suitable content for the system.

The cable-TV industry is smaller and more fragmented than the phone business. But cable companies have the advantage that more than four in every five Canadian homes have access to cable, one of the highest penetrations in the world. Their ability to offer competitive local phone service is growing with the gradual installation of fibre-optic networks equipped with two-way switches.

By far the best-placed cable company is Rogers Communications of Toronto. Rogers, whose interests include a stake in Unitel, the long-distance operator, struck a deal earlier this year to buy Maclean Hunter, the third biggest cable operator.

Once the purchase is finalised, Rogers will have a 31 per cent share of Canada's cable market. The Rogers-Maclean Hunter deal could be the start of a period of consolidation, which would put the cable industry in a better position either to forge alliances with the phone companies, or to challenge them head on.

New equipment application: sonar modems

Farewell to underwater phones

Sonar modems that transmit text and graphics underwater are speeding up the work of divers. Since July, US defence agencies have been testing "wet" portable computers that use sonar to maintain continuous contact with the surface.

The hand-held computers mean that divers can dispense with a lot of their conventional clutter such as plastic writing slates, depth gauges and ropes. The built-in sonar modem allows the surface crew to monitor the progress of the dive, to receive data from the diver and to relay messages that increase the diver's safety.

"Underwater telephones can distort your speech and be hard to understand," says Marco Flagg, whose Desert Star Systems, California, designed the DiveTracker computer. "They can also need extra cables. Our system overcomes these problems and it can also store all the data from a dive, including logging the diver's movements."

The DiveTracker is a box a little larger than a mobile phone, machined out of portable aluminium to withstand the pressure 1,000 feet down. It includes the standard depth and tank pressure gauges which are integrated with the computer. It has a micro controller with 538 kilobytes of memory holding the operating system and bespoke applications software. There is a back-lit graphic LCD display of 64 by 128 pixels and a solid-state 16-key pad operated with a magnetic pointer.

It is powered by an internal rechargeable nickel-cadmium battery that is said to last up to eight hours if the modem is used only 'moderately.' If used continuously, the battery runs flat in two hours. Once back on board ship, there is an RS-232C serial port for downloading data to an IBM-compatible personal computer.

Software for DiveTracker is written in the "C" programming language and the first package covers the three main needs of a diver – dive status/decompression display, communication and navigation.

Each function has its own display screen. Besides a graphic dive profile it also shows the present depth, tank pressure, water temperature, time elapsed, air consumption and remaining air time. The modem has a range of 300 feet in 'noisy' waters, where the sounds from creatures such as dolphins disrupt the signal, up to 3,000 feet in tranquil lakes.

DiveTracker models cost between $1,600 and $3,000. It is being used across a range of military applications. These include the enigmatic category of "special warfare" and the less mysterious disposal of explosives, as well as positioning divers on underwater structures for ship repairs.

The system should slot into the military's chain of command easily – "the precise navigation capability – accurate to within six inches – along with the system's communication capabilities allow more efficient mission control to military users," says Marco Flagg. In other words, even captains in their cabins will be able to know exactly what their divers are doing, 1,000 ft below.

There is a software package that is targeted for divers that need to follow precise search patterns under water, such as in explosive ordnance disposal.

In the scientific field, there has been an interest to use DiveTracker for data recording as well as a sensor data acquisition device.

One group may also use it to track scientists performing their underwater experiments: safety regulations call for surface team members to be aware of scientist-diver locations.

Max Glaskin

Satellites will provide mobile phone links – everywhere

You can always switch off

A portable phone that works anywhere worldwide is no longer science fiction, according to satellite operators. Serious investment lies behind their dreams of global telecoms, reports Andrew Emmerson

Less than ten years ago, when cellular radio opened in London, hand-held mobile phones were a novelty. They cost a king's ransom and had most of the characteristics of a brick (including the nickname), but they represented a genuine breakthrough.

For the first time anyone with the money could make phone calls from more or less anywhere – at least, anywhere in range of a base station anyway. Now another communications breakthrough is about to move those base stations into the sky so that portable phone users will always be in touch, no matter where they are throughout the world.

Purists will no doubt argue that luggable mobile telephones existed before cellular and that you can already make phone calls by satellite worldwide if you are prepared to carry around a terminal the size of a briefcase.

Neither of these solutions were mass-market products, whereas the new generation of portable phones are intended for a wide user-base, even if the cost restricts take-up in the early stages.

Charges, in fact, should not be a big hindrance among potential users: according to Iridium, front-runner among the satellite phone consortia, dual-mode handsets will allow users to switch to cheaper land-based services when possible.

Iridium customers can expect to pay $3 (£1.80) a minute for calls, whilst their rivals intend to undercut this figure. Vodafone, a member of Globalstar, another consortium, says typical charges will represent only a modest premium to existing cellular tariffs. Indeed, in the US, Globalstar has announced prices as low as 65 cents – just under £1 – a minute.

Six competing consortia have announced plans to offer global telephone services by means of satellites in low earth orbit ("Leo" satellites) and a seventh is expected shortly. Iridium, led by Motorola, was the pioneer scheme and has been joined by contenders Globalstar, TRW, Teledesic, Constellation Communications and Ellipsat.

Rather than compete with established cellular radio operators, the sky-based systems will collaborate with them, offering them franchises. The UK's Vodafone group has, for instance, acquired the franchises for Globalstar in the territories where it is already involved in operating cellular networks. These include Australia, South Africa, Hong Kong, Sweden, Denmark, Sweden, Malta, Greece and, of course, the UK.

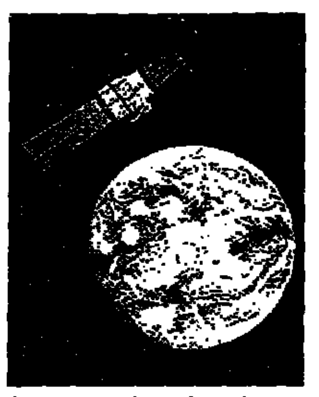
Gerry Whent, Vodafone chief executive, explains the rationale for this: "We've always been at the leading edge of mobile telecoms technology and we regard the Globalstar service as being complementary to the terrestrial cellular networks that we already operate in a number of countries.

"It will enhance the potential coverage to subscribers in more remote areas who will use dual-mode handsets capable of using either terrestrial GSM networks or Globalstar when out of local cellular coverage areas."

In terms of technology and service offering there are general similarities between the plans announced so far. Globalstar and Iridium will both open commercially in 1998 and each will also allow their subscribers to use land-based GSM cellular systems wherever available (and incidentally, confirming GSM as the de facto global standard for mobile phones).

Iridium services will include voice, data, facsimile and paging. Iridium will employ a 'constellation' of 66 Leo satellites, whilst Globalstar is based on a constellation of 48 – whereas Iridium plans links to pass international calls between satellites, Globalstar does not, and will rely on long-distance terrestrial networks.

The scale of investment required – Iridium will cost $3.2bn to build – means that costs must be shared between constructors and network operators. The consortium announced this month that Germany's Vebacom would take a 10 per cent stake and invest at least $140m to acquire in return the northern and western European gateway territories.



Satellites: helping to keep the whole world in touch

In Globalstar, Vodafone has joined nine other international companies and will contribute $37.5m in 1994-95 for a stake of around 10 per cent in the consortium.

Not all potential global satellite operators are newcomers, however. BT and other partners in Inmarsat, the international consortium providing satcomms to shipping and airlines, have announced their own hand-held satellite phone called Inmarsat-P and targeted for introduction by 1998-2000.

Whether all these plans will come to fruition is anyone's guess: some observers are chary whether the total business to be had can support such grandiose plans – and they fear charges may need to be raised to protect terrestrial networks, especially in developing countries. Some nations may demand a high premium for the tight to establish earth stations, forcing up charges further.

Some European telecom operators are also privately critical of what they see as US aims of global domination in satellite communications, as well as "bad faith." Because satellites ignore national boundaries, any service authorised in the US has, in effect, a world-wide operating licence, and as long as customers are happy to deal with an operator in America, they can use their phones wherever they choose. This, they say, gives the US an unfair advantage.

There is also disagreement over frequency allocations: channels or frequencies for radio communication are at a premium; a world conference in 1992 set aside radio spectrum in all countries for a new, third-generation terrestrial mobile phone system.

However, in the US, part of this spectrum has now been allocated to Iridium and other Leo satellite systems, pre-empting its use for other services.

Whilst this may be expedient now, it could also cause problems for the future development of the terrestrial service. Official talk of a rift is discounted, however, by David Court, head of the European Radio Communications Office in Copenhagen: "We would merely point to a difference in emphasis between the US and Europe; America is clearly focusing on satellite services, whereas Europe is more concerned with terrestrial services," he says.

The vision of the phone that works everywhere is now within reach, which must assure the future of personal satellite communication systems. Coupled with a personal follow-me phone number, the user will stay in touch with the world wherever he or she roams. Thankfully an on/off switch is also a standard fitting.

MULTIMEDIA

Many bridges to be crossed

Multimedia has been the victim of its own promotion, but that's no reason to write it off entirely, reports Andrew Emmerson

The cynical tags, "vapourware" and "real soon now" are commonly associated more with computing than telecommunications, but multimedia could change this. Vendors who traditionally shunned the hyping of products seem to have lost their inhibitions with multimedia, even though its most dynamic aspect appears to be the extravagance of the claims made.

For many observers, despair and disinterest have replaced early enthusiasm, as the multimedia concept is successively redefined and relaunched.

On the other hand, according to the "real soon now" merchants, the promises and predictions for multimedia are, after an agonising wait, starting to turn into products.

Indeed, multimedia communication is believed by industry pundits to be the growth market of the 1990s and is set to repeat for manufacturers the commercial bonanza of the fax revolution of the eighties.

Multimedia is defined as the integration of a variety of audio-visual presentation methods into a single framework, using a personal computer as the "platform" or basis. The technique is well established as a presentation medium and is now being advocated as the universal answer to business communications, as well. The problem is that multimedia may be adopted for the wrong reasons.

"The corporate world always has a tendency to grasp at the newest advance in technology as a panacea for all their problems," comments Judy Roland, director of Mouse Power Presentations, a multimedia creative studio based in Box, Wiltshire.

"Like any other communications tool, multimedia is appropriate for achieving some business objectives – but not all," she asserts. "We have a major education problem, not to get management to accept multimedia – they do so, already – but to show them it's not always the most appropriate technique nor is it some miracle means where you just press a button and it revolutionises your work.

"Multimedia has a serious role to play – it's already used much more maturely in the US – but it shouldn't be chosen purely for faddish reasons."

Identifying the kind of productivity improvements that multimedia is expected to achieve is even harder, according to Jeff Goldberg, an analyst with technology research consultancy, Dataquest.

"The truth is that multimedia is a completely abused topic, one which has been described incorrectly by industry and misunderstood by users," he explains.

"Multimedia is not a technique or goal in isolation but rather one single element of a much broader discipline. Anyone who promotes multimedia for its own sake is heading for trouble."

To date, he says, the most successful applications for multimedia have been in presentation and these have been adopted and accepted, not because they were touted as multimedia but rather because no-one even mentioned the 'M' word.

Whereas the average business presentation a year ago used simple black and white transparencies and an overhead projector, today you see computer graphics in colour and motion on a video projector. This, he asserts, is an appropriate and practical application for multimedia, even if other people do not class it as such.

According to Goldberg, multimedia's chief achievement – so far – is in its use as a "fix" to correct the inadequacies of the basic PC computer. To fill in the gaps in the original PC specification, suppliers

The home TV set: some analysts see it as the agent of the multimedia revolution

have come up with improved sound and vision capabilities, together with the ability to play CD-ROM disks, turning the humble PC into a powerful tool for training, video-conferencing, distance-learning and, inevitably, computer games.

Nevertheless, he concedes that this early incarnation that we currently call multimedia is insignificant in terms of market share and cannot be said to fulfil the ambitious claims made for the concept.

Other parties are pinning their faith in the home TV set as the agent of the multimedia revolution. This autumn, hundreds of homes in Cambridge will take part in interactive multimedia trials and will be offered personalised news services, video-on-demand, games, education and armchair shopping. Large companies are involved, including Cambridge Cable, News International, Anglia Television, Acorn Computers and Olivetti.

To some observers, however, the trial sounds suspiciously like a repeat of BT's encounters of the expensive kind with Prestel, dial-up computer games and movies by cable a decade ago, which proved minimal user demand. Probably the most valuable information that the trial will generate is that the home TV is not the most appropriate platform for multimedia.

So perhaps multimedia belongs in the office after all; certainly that's where the larger informatics companies see its future. Companies such as Alcatel, Philips, IBM and Olivetti, as well as telecoms players such as BT envisage multimedia as a unified total communication system: unlike the telephones, fax machines, computers and even videophones we have today, multimedia combines all these capabilities and more in one single desktop terminal.

Now, they say, the common desktop computer has been transformed into something much more powerful, in fact a real tool for business. Soon we could be seeing the person we are phoning in a corner of our PC screen, with this image then replaced by sight of a document we are discussing jointly. Researchers could examine pictures in a photographic library at any time, without leaving their desk, then extract the images required and use them in a new presentation of their own.

Significant problems remain before this can come to pass. Setting aside the lack of apparent user applications and easy-to-use connectivity, there are big bridges to cross in terms of workplace culture and user training.

According to a senior executive of one of the companies just mentioned, multimedia offers the office automation industry a licence to print money – users are keen to adopt leading-edge technology and are probably prepared to pay for it – "but," he confesses in the same breath, "the tragedy is that we'll probably blow the opportunity ... simply because all this technology is too complicated to use.

"If people cannot even program their video recorders at home, how on earth will they relate to a Pentium PC, a CD-ROM player and two video cameras to drive?"

His dilemma may be not be so imminent, though: according to Dataquest's Goldberg, the multimedia revolution can only take place with an adequate communications infrastructure and this has not been fully defined or developed yet.

Existing technologies are too expensive and take-off will depend on further progress with data compression or the deployment of an affordable universal broadband network.

Until then, it will remain an effective technique for specialist applications, but hardly the all-embracing cure-all portrayed up to now.

INTERNATIONAL ALLIANCES

Global link-ups could transform the industry

The last year has seen the rise of global alliances between telecommunications operators, the impact of which could be a transformation of the international telecoms industry, reports Andrew Adonis

The outlines of the new structure of the world telecoms industry are starkly clear: three rival alliances of operators, each seeking to create and corner the market for one-stop international telecoms contracts. Although defensive as much as offensive in motivation, the alliances are displaying less and less regard for the "cartel culture" which has hitherto governed international telecoms.

The three alliances are headed respectively by British Telecommunications, AT&T, the largest US operator, and Deutsche Telekom, the state-owned German carrier.

☐ **Concert**, the joint venture company headed by BT, is widely credited as the most advanced of the three alliances. Its cornerstone is a $5.3bn alliance between BT and MCI, the second-largest US long-distance carrier, forged in June 1993. The alliance involved BT taking a 20 per cent stake in MCI for $4.3bn, and the establishment by the two companies of a $1bn joint venture (Concert), based in the US, to develop and market one-stop voice and data services for multinationals.

Concert has gained regulatory approval on both sides of the Atlantic and launched a range of voice and data services. Its main strategic priority is building relationships with national operators to market its wares.

So far, it has signed up three of the four Nordic national operators (Norwegian Telecom, Telecom Finland and Tele Danmark, the Danish national operator), and Nippon Information and Communication (NIC), a small joint venture between NTT, the Japanese national domestic, and IBM Japan.

None of these tie-ups involves equity exchanges or is exclusive, although the Nordic alliance is more than a simple marketing agreement since the four partners have agreed jointly to attack the Swedish corporate market where the national operator, Telia, is a key member of a rival alliance. However, BT does not rule out more equity partners for Concert. Its most evident weakness is in the crucial Asia-Pacific region, where NIC is no substitute for its parent (NTT), or for one of the larger national operators.

☐ **Worldsource/Unisource**, the second of the alliances, is a more complex hybrid formed this June between two different groupings: AT&T's Worldsource venture and Unisource, a joint venture between four mainland European operators.

The two have been growing separately – indeed, in competition – for more than a year, but are now committed to progressing in partnership.

Worldsource involves no equity exchanges between carriers, but is a bid by AT&T to enlist a cast of leading national and regional operators to market and help provide its international business services.

The members, who have joined with differing degrees of commitment, include KDD, the Japanese international operator, Singapore Telecom, and Telstra, the Australian national operator. Telstra is a significant force across Asia-Pacific.

Until this June, Worldsource's obvious weakness lay in Europe. AT&T pondered several strategic options but for a year appeared reluctant to chose between them. In the end, Unisource became an almost inevitable partner.

A joint venture between the national operators of Sweden, Switzerland and the Netherlands, Unisource has direct contact with most of Europe's multinationals and was developing a solid reputation. Its imminent expansion – now completed – to include Telefonica, the semi-state owned Spanish national carrier, was a further attraction to AT&T because of Telefonica's significant operations in Latin America. And since Unisource included none of Europe's four largest carriers, the tie-up is hard for regulators to oppose on competition grounds.

For its part, Unisource needed a US partner urgently to be credible to multinationals. Early in the year it joined AT&T in a successful bid to provide telecoms facilities to the EVUA, an association of more than 30 European multinationals contracting for a common corporate network for their European traffic.

"It brings us what we needed to make a strong competitor in this international market," says Mr Viesturs Vucins, Unisource chief executive.

☐ **Atlas**, the third alliance, comprises Deutsche Telekom, France Telecom and Sprint, the third-largest US long-distance carrier.

As with the AT&T/Unisource alliance, Atlas was preceded by a grouping of the European carriers, who a year ago formed a joint venture called "Eunetcom."

In June, this was expanded to include Sprint, when France Telecom and Deutsche Telekom signed a deal to take a 20 per cent stake in the US operator for $4.2bn.

"There are hard and soft alliances in this industry," says a leading corporate finance adviser to Deutsche Telekom. "To our mind, the lesson of BT/MCI's marriage was that only the hard variety were durable, so we had to go the whole way."

However, Atlas may yet founder on the rock of regulation. BT faced a marathon examination by US regulatory authorities, lasting over a year, when it was pressed hard on the issue of the openness of the UK telecoms market to competition.

The US has since formally declared the UK's telecoms régime to be "equivalent" to the US in terms of the openness – the only country besides Canada to enjoy that status.

By that token, Atlas is set for a traumatic ordeal before the Federal Communications Commission and the US Department of Justice. Neither the French nor the German public voice telephony markets are open to competition – and will not be until 1998.

AT&T is making much of the prospect of "monopoly" revenues being used to "subsidise" Sprint in its US and international activities, while US operators are unable to compete head-on in either France or Germany. Atlas has to answer similar charges before the European Commission.

Even if Atlas is allowed to proceed, it lacks Asia-Pacific partners. Mr Helmut Ricke, chairman of Deutsche Telekom, says Asia is "an immediate concern", but partnerships have yet to be announced.

If the outline of the alliances is increasingly clear, vital issues concerning their future remain shrouded in mist. Three issues in particular, each of which has ramifications for international telecommunications more broadly:

☐ **Market share**: the alliances proclaim multinational companies – anywhere between 400 and 4,000 of them, depending on the interviewee – as their target.

How fast will they gain them? And is that just the first, large step on a road which could see the alliances corner a large part of international telecoms business?

There is alarm among the smaller European PTTs, which fear that isolation from the alliances could result in a haemorrhage of lucrative corporate traffic, since their main corporate customers are almost by definition "multinational."

Liberalisation makes the threat more potent still: the likes of BT and AT&T are already allowed to operate private corporate networks across the European Union; if – as appears likely – full infrastructure liberalisation takes place across the EU in 1998, they will be able to put their weight behind fully-fledged alternative carriers if they consider that to be the best way into the local market.

However, for most Asia-Pacific carriers the pressure to ally is less intense. Although the region includes liberal telecoms regimes such as Australia, most of the market for international telecoms appears set to remain protected by monopolies into the next century.

☐ **Cartel pricing**: executives of the alliances say that they need to offer savings on basic prices of at least 10 per cent to make their one-stop services attractive. However, it is too soon to claim that the new régime will undermine the cartel which keeps international prices artificially high.

If, in a given market, the effect of the PTT joining an alliance is to keep out effective competition, it could have the opposite effect.

☐ **Margins**: is the core business of the alliances – one-stop international corporate services – high or low margin business?

The pessimists say low margin, because multinationals are demanding large savings for one-stop contracts. However, the optimists stress the undoubted dynamic effect of improved networks in boosting traffic and the sale of new services.

Furthermore, should corporate networks be the thin end of a larger wedge, the pickings could be richer still. That, at any rate, is the view from AT&T, BT and Deutsche Telekom.

THE JASON PROJECT: advanced communications are linking students and scientists, half a world away, in less than half a second, in the Jason project, a pioneering concept in interactive 'distance learning.' Pictured above is the EDS information management centre at Plano, Texas, where satellite signals are monitored. Next February, half a million students and school-children will be able to watch scientists in a live exploration of the crater of Kilauea, one of the world's most active volcanoes, on the island of Hawaii. This year, in other Jason ventures, children at UK schools were able to follow 'live' exploration of the rain forests, reefs and caves of Belize in Central America.

Nikki Tait on the gradual introduction of intensified competition

Australian battle begins

Mr Frank Blount, the former AT&T executive who runs Telstra, the large government-owned telecommunications group, is forthright about where the Australian market is headed – "competition will intensify: this is just the warm-up," he says.

Few industry observers would disagree. As recently as the late-1980s, the Australian telecoms market was essentially government-controlled and dominated by three entities. There was the Australian Telecommunications Commission, which ran the domestic telecom services; the Overseas Telecommunications Commission (OTC), which provided international services; and Aussat, which was responsible for Australia's satellite communications system.

Already, there have been significant changes. The first two entities were merged to form Telstra (which goes by the Telecom name in its home market) and is still wholly-owned by the federal government. Aussat, meanwhile, was sold to Optus, a new second telecom carrier licenced in early 1992. Having started by competing with Telecom in cellular telephone market, Optus moved into long-distance services in late-1992.

To improve Optus' chances, a series of ballots were held in Australia's larger cities, giving customers a well-publicised opportunity to choose between the new carrier and Telecom for their international and national long distance services. This process is still continuing, although it has begun to move on to "second-line" cities such as Bendigo/Ballarat in Victoria where balloting starts on October 12.

Responses have varied, but in the key Sydney market almost 20 per cent of subscribers opted to move away from Telecom. In Melbourne, the figure was 14 per cent. At the same time, selective opportunities have been available for overseas players. The UK's Vodaphone won entry into the mobile phone market last year, for example, initially offering services in Melbourne, Sydney and Canberra.

A number of international companies have also entered the "re-sale" market. Last month, Pacific Star, a joint venture company established by Telecom NZ and Bell Atlantic, signed a deal with Optus under which the latter will supply long-distance services to Pacific.

But, as Mr Blount says, this limited opening-up of the telecoms sector is almost certainly just the start. The duopoly system in the long-distance market was always intended to be an interim arrangement, and the federal government's declared aim is to move towards full network competition by the middle of 1997.

Earlier this year, in a speech to the annual conference of the Australian Telecommunications Users' Group, Mr Michael Lee, federal minister with responsibility for the industry, indicated post-1997 regime would have Canberra playing only a "minimal" role, "protecting consumers and facilitating competition."

The government appears to envisage the introduction of new legislation, setting out the ground-rules for this liberalised environment, in the back-half of 1995. That would then give companies seeking to enter the Australian market an 18-month window in which to develop their plans.

Among the many issues which the post-1997 planning will need to address is what long-term role, if any, should be played by Austel, the industry watchdog. As Australia moves to greater competition on numerous fronts, Mr Lee has noted: "It is quite clear that . . . the role of specialist industry regulators like Austel will have to be examined."

For Telecom, liberalisation of the Australian telecommunications market has posed big management questions. The business has not always been held in high regard by its customers, nor has it fared particularly well in terms of international benchmarking studies - especially in some key areas, like labour productivity.

Telecom's image was dealt a blow when Austel published its report on the "Casualties of Telecom" affair earlier this year. The CoT group was a self-styled band of protesters, mainly made up of small businesses, who claimed that the company had failed to take their service complaints seriously and, in some instances, caused them significant financial loss as a result.

Although Austel handed its judgment down in moderate language and the CoT-related complaints were a minute proportion of the total business handled by Telecom, the impression left by the report was highly unfavourable. Telecom, the regulator decided, had failed to take some complaints seriously and its behaviour was "less than that of a model corporate citizen."

But if the challenge of imbuing Telecomwith service values whilst cutting staff numbers without damaging morale, look formidable, the financial picture is more satisfactory. Last month, Telstra unveiled an after-tax profit of A$1.7bn after tax and exceptional items – up from A$905m in the previous year – on revenues 5.6 per cent higher, at A$13.4bn. Since half of Telstra's after-tax profits are now paid to its shareholder by way of a dividend, meaning an inflow of A$738m into government coffers.

But even on this score there are problems. Some observers question what sort of return is appropriate for a government-owned utility. Others ask whether Telstra should really be in the private sector.

Mr Blount, unveiling the results, declined to be drawn on the thorny, highly-politicised privatisation issue, beyond noting that ministers have said that the business will not be handed over to the private sector in the term of this government.

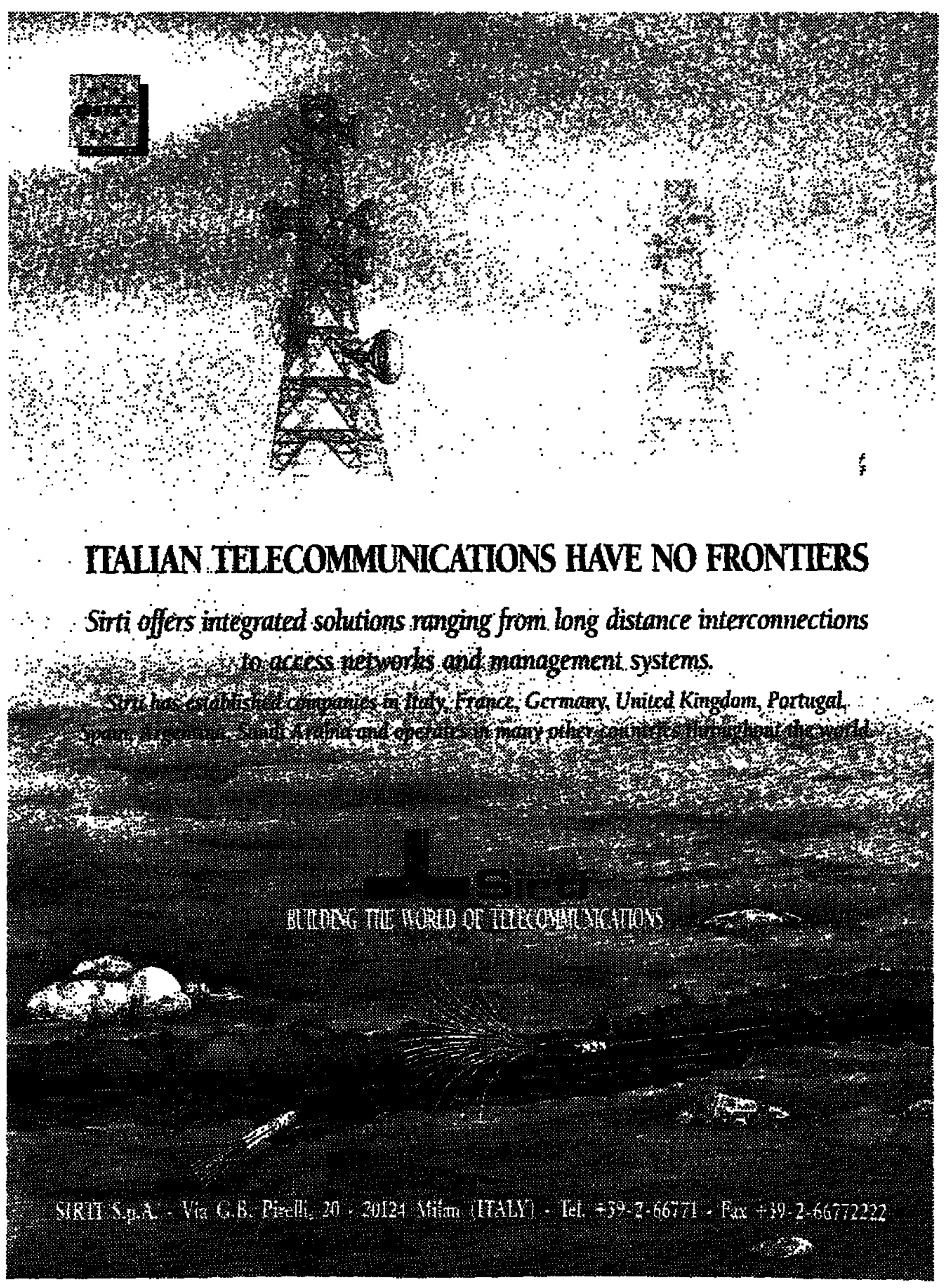
He did, however, note that "the development of a world class Australian telecommunications network requires massive investment." Over the next three years, Telstra plans to spend over A$3.5bn. One of the biggest single investments will be in digital equipment to modernise the network.

A number of international companies have entered the 're-sale' market

The company has also pledged to take its fibre optic and coaxial cable network into 1.1m Australian home by the end of 1996 at an investment cost of A$710m – suggesting that cable pay-TV may then become a serious rival to the currently more advanced satellite availability.

For Optus, the issue is how to capitalise on Telecom's weaknesses. The newcomer is owned by a mix of domestic and international institutions and acquired a new shareholder in Mr Kerry Packer's Nine Network, the leading commercial TV network, in March. Nine Network paid A$318m for a 15 per cent stake. Optus has said that it expects to float at least part of its equity on the stockmarket during the next calender years, and brokers have already been appointed.

As a private company, Optus does not release full earnings reports. However, it makes no secret of the fact that it ran at a loss in 1993/4, although Mr Bob Mansfield, chief executive, has said it should break even in the current 12 months and move into profit thereafter. Revenues in the year just ended have been estimated at well in excess of A$800m, and possibly over the A$1bn-mark in annualised terms.



An attractive market for investors

Mexico making up for lost time

Telecom prices in Mexico are falling sharply as a result of competition and the emergence of cellular services, reports **Mark Newman**

While governments in other countries remain cautious about deregulation, Mexico is forging ahead with a swingeing reform programme that will bring the national operator Telmex into direct competition with some of the most powerful telephone companies north of the border.

Competition will largely be in long-distance services. The Ministry of Communications and Transport agreed in July to grant an unlimited number of licences to companies to offer long-distance services from January 1997. A detailed regulatory framework for the new operators will be drawn up in the autumn.

Several Mexican industrial and financial groups have already thrown their hats into the ring. The leading contenders are those companies which have forged links with US telephone operators.

Three such groups have emerged:

□ Mexico's largest financial group, Grupo Financiero Banamex-Accival (Banacci), which has taken a 55 per cent stake in a consortium with US long-distance operator MCI.

□ Mexican cellular telephone operator Iusacell, which is 49 per cent owned by Bell Atlantic. Iusacell also has a liceence to build a fixed wireless local telephone network.

□ US telecoms equipment manufacturer Motorola and the Mexican industrial conglomerate Grupo Protexa; also, the US long-distance operator Sprint is in discussions with Grupo Protexa about joining the consortium.

Joshua Levenburg, a Latin American analyst at Pyramid Research in Massachussets, says there is "enormous interest" in the Mexican market – "the opening of the long-distance market is a tremendous investment opportunity," he adds.

Pyramid Research estimates that telecoms service revenues in Mexico will almost double from $7.6bn in 1993 to $14.4bn in 1998; the market grew by 16 per cent in 1993.

Mexican long-distance calling patterns are favourable for new operators. Seventy-five per cent of all long-distance traffic is between the cities of Monterrey, Guadalajara and Mexico City.

Telmex's long-distance and international call revenues last year totalled $4.2bn – more than 50 per cent of Telmex's total revenues.

Mexico's low telephone line-penetration levels also make it an attractive market for investors. There are only eight telephone lines for every hundred people. Telmex is having problems meeting the demand for new lines, and this gives operators of wireless systems – who can instal lines in a matter of days – a distinct advantage.

Telmex is vulnerable to competition – "you've got some major players with deep pockets coming in," observes Eduardo Cabrera. It is difficult to forecast the effect of competition on Telmex, he adds – "the key question in Mexico at the moment is how profitable Telmex will be in the long term."

A proposed licence fee for new competitors in the range $100m to $500m will dampen the prospects for competition. But a more important issue is the interconnection fees that competitors will have to pay Telmex for passing calls over its network.

Telmex will be seeking to pass on to competitors – through their interconnection charges – part of the cost of operating its loss-making local telephone network.

Sprawling Mexico city: target for expanding cellular telephone services Picture: Peter Menzel

Long-distance competitors will operate along similar lines to companies such as MCI and Sprint in the US.

Telmex customers will able to dial a code to choose a long-distance carrier, but they will also have the option of subscribing to a particular carrier for all their long-distance calls. This is the same system as in the US where AT&T has lost 35 per cent of the long-distance and international calls market.

But competition will develop along different lines than in the US where local networks remain closed to competition.

Two of the three leading Mexican consortia operate cellular telephone networks. Iusacell owns cellular telephone networks in Mexico City, and controls other concession in Guadalajara and in the centre and south-east of Mexico. Its concessions cover almost three-quarters of the Mexican population. Motorola, meanwhile, has stakes in cellular telephone networks across the whole of the 2,000-mile border with the US.

This gives the two consortia a big advantage over other prospective long-distance operators. Even when a customer choses a competing long-distance operator, the call begins and ends on local phone lines connecting the orginator and the person who receives the call. The competing carrier has to pay Telmex for these two local ends, and these payments could eat into profits derived from the long-distance section of the call. Motorola and Iusacell can get round this problem by connecting customers to their long-distance networks using their cellular networks.

Cellular phone services are currently too expensive for customers to consider using them as an alternative to Telmex's standard telephone service. But prices are falling sharply as a result of competition and the emergence of cellular as a residential as well as a business service.

In the meantime, Iusacell is building one of the world's first local fixed telephone networks using cellular telephone technology. The network, which will open in a rural area close to Mexico City in the late autumn, uses frequencies at around 450MHz – the same part of the radio spectrum used by Scandinavian phone companies for first generation cellular telephone networks, launched in the early 1980s. Iusacells's network is supplied by Northern Telecom which has a $330m three-year contract.

Telmex has been bracing itself for competition since its privatisation in 1990 – "they've done a commendable job of trying to improve the technology: 70 per cent of the network is now digital," notes Cabrera.

Telmex has also hiked up local call rates and reduced long-distance and international charges where it will face stiffest competition.

Prices tumble for international and long-distance calls

Fierce competition in Swedish market

Pressures in Sweden's liberalised telecoms sector are intensifying as large international players enter the fray, reports **Christopher Brown-Humes**

Sweden vies with New Zealand for the title of the world's most liberalised telecoms market, according to the Organisation for Economic Co-operation and Development (OECD). Having for many years had a *de facto* state-owned monopoly operating in an unregulated environment, it has moved rapidly to establish a light regulatory framework designed to promote open and fair competition.

The results have been striking. Despite the relatively small size of the country – Sweden's population is just 8.7m – some of the world's biggest telecommunications groups, including AT&T , British Telecom and France Telecom, have entered the market. Moreover a number of new competitors have sprung up, led by Tele2, jointly owned by Swedish media group Kinnevik and Cable & Wireless.

It means that Telia, the dominant operator, is being challenged as never before – "Telia faces fierce competition on customer premises equipment, data communications services, cellular services, international calls, national long distance calls and infrastructure," says Stig-Arne Larsson, Telia's deputy chief executive.

Indeed, local calls and Sweden's analog NMT mobile network are two of the few domains where Telia still has a 100 per cent market share.

The competition has brought a fall in international and long-distance prices in a country where they already low by international standards. But there has not been a full-blown price war and the effect on Telia's profits has so far been limited.

What is clear is that pressures in the domestic market are intensifying. In just 18 months, Tele 2 has bagged more than 10 per cent of the international calls market, and from this autumn it will offer domestic long-distance services.

Moreover, Telia has lost international calls and data transmission business to overseas rivals. It was more than a little dismayed when StatTel, a state procurement body, passed over it to award a prestigious data transmission contract to France Telecom.

The biggest challenge may yet be to come. BT has just announced a partnership agreement with Telia's Scandinavian rivals – Norwegian Telecom, Telecom Finland and Tele Danmark – as part of a specific drive to win business in the Swedish market. Telia purports not to be alarmed by the increasing pressures, saying it expects to lose up to 40 per cent of international calls and 25 per cent of long-distance traffic in the next two years. Losing more than this would test Telia's patience, however, which may force it to be much more aggressive on pricing than it has been so far.

Telia, Sweden's dominant telecoms operator, is being challenged as never before: the state-owned company has lost international calls and data transmission business to overseas rivals, but the effect on Telia's profits has so far been limited

"Being the market leader, we cannot stage a head-on price war. We would destroy the market and ruin our company," comments Mr Larsson, while acknowledging it would be politically insensitive if the group went out to destroy the competition before it has fully developed. Telia has responded to the onslaught in a number of ways:

Firstly, it has implemented a fierce cost-cutting programme, reducing staff numbers from 48,000 to 32,000 in three years.

Secondly, it has begun differentiating its products more, offering customers tailor-made packages to meet their needs.

Finally, it has gone on the offensive both at home – where it is actively building its position in mobile telephones, for example – and in markets outside Sweden. There are two strands to the overseas expansion strategy. One is to retaliate directly against competitors in their own home markets. A good example is the UK where Telia has been awarded a licence for international calls and has set up a switch in London.

The trouble here is that access to most other European markets is restricted.

The second plank of attack is Unisource, a venture with Swiss, Dutch and Spanish partners which is specifically designed to provide the international clout which the four companies lack individually. The grouping has forged a joint venture with AT&T for the delivery of voice services to 50 multinationals.

Telia says it can share costs through Unisource while defending its home market (because multinationals can be offered one-stop shopping and a broader global reach) and capturing market share in other European countries. Again, the last ambition will have to await a broader deregulation of the European market.

Some worry that Telia is still too dominant, claiming the newly-established regulatory body, the National Post & Telecom Agency, is not trying actively enough to promote competition. Underlying this is a broader concern about conflicts of interest when there is state-owned agency regulating a fully state-owned company.

Jerker Torngren, the NPTA's Head of International Affairs, does not see it this way. He says: "What we want to create is competition. We are not saying we need a certain division of market share to create that competition."

He also rebuts the conflict of interest suggestion, saying that in Sweden there is a very strict dividing line between the government ministries which draft legislation and the agencies which implement it – "it is the government which owns Telia, not us," he stresses, adding that there are no policy implications in the fact that Telia is state-owned.

Another concern is that the agency lacks the teeth to enforce its decisions. For example, in the current row between Telia and Tele2 concerning long-distance interconnection rights, the agency can act as a mediator, but it cannot force the warring parties to abide by its findings.

This is a weakness which could always be ironed out in due course. There were always likely to be some teething troubles given the dramatic change being implemented and the fact that much of the legislation governing the sector only took effect on July 1, 1993. In any case, there is a competition authority to fall back on, as its powers are more than adequate to deal with any clear abuse by Telia of its dominant position.

The one surprise is that Telia, though behaving in virtually every respect like a private company, is still state-owned. This may change in due course. There is no doubt that management is keen on privatisation: the incoming Social Democratic government is much more ambigious about the process. Even so, the Social Democrats have hinted they may not oppose privatisation if they think it will help the group's international expansion ambitions.

EUROPEAN WIRELESS MESSAGING

Moving into the limelight

A far cry from tone bleepers, European wireless messaging offers a multiplicity of new business and personal communications applications, reports **Paul Quigley**

Imagine the nightmare office scenario: you are alone and it's late – but you need to send documents, several pages in length, to colleagues who may be next door, in another town or even in another country. They need your missive, instantaneously, wherever they may be. You cannot send them facsimile messages – you do not know *exactly* where they are; they might have a cellular telephone, but you cannot phone them because the details they require are complex, specific or not readily communicable by word of mouth. What you have, and what they need, is mission-critical information.

What would you do? Panic? Delegate? Resign? Situations like this, you realise, were not covered at business school.

The pager? Indeed so: having endured the ignominy of time, living in the shadow of cellular telephony, the trusty war-horse of mobile telecommunications has kept up with the times and has been transformed into a high-speed, high-capacity, frequency-agile 'wireless messaging' device. A far cry from tone bleepers, European wireless messaging is moving into the international limelight as a serious contender for a global wireless messaging standard, offering a multiplicity of innovative business and personal communications applications.

The European Radio Message System (Ermes), an EC-championed second generation digital radio-paging standard, is a model for international co-operation in telecommunications. Conceived in 1987, Ermes uses 16 radio channels between 169.4-169.8 MHz, and can hop about each available frequency band to transmit vital information at speeds up to 6,250 kilobits per second to pocket mobile messaging devices.

As a broadcast-based service, Ermes' inherent strength lies in its ability to move large amounts of information from point-to-point, point to multipoint, and also multi-point to multi-point. Thus, any number of value-added service providers can offer tailored information broadcast products to end-users over any Ermes networks.

As cross-border mobile and fixed telecoms traffic increases year on year, business systems and applications that cut through national boundaries, and can 'roam,' are now fundamental pre-requisites. While 31 European radio paging network operators are currently signatories to the Ermes 'Memorandum of Understanding' (MoU), interest is growing outside its European origins. Paging operators across the Asia-Pacific region are set to sign up to the standard.

"Interest from the Asia-Pacific region is very important" says Mr Per Berntsen, chairman of the Ermes MoU group, "because we are talking about very large volumes."

Ermes operators also see the future in satellite distribution. Not only of value-added services that will be available to national and international subscribers, but also in enabling Ermes networks to be rolled-out across countries utilising satellite up-links and down-links between message switching centres and their base stations. This, effectively, reduces operator infrastructure costs by eliminating a large proportion of the networks' requirement for private leased-line circuits – hard-wired or microwave links – whilst at the same time, increasing the potential volume of base stations to serve the coverage areas. Additionally, with minimal or no paging bureaux personnel message-handling interlocution, network operators will be able to pass on cost-savings from lower overheads to cheaper messaging and terminal unit costs.

Coming soon: the first Swatch alphanumeric pager – it will run on DeTeMobil's 'Cityruf' network

The key factor with new mobile communications technologies now coming on-stream is that they will be targeted at new user segments, not solely those who are already well-catered for; Ermes, and generic wireless messaging, will have a much broader user appeal as operators and value-added service providers launch global products.

Mr Berntsen concurs with this view – "there will be those who don't have GSM, or cellular telephones, who would rather have a pager because of the type of work they do or on the grounds of the cost-effectiveness. Remember that mobile telephone services have always had a traffic cost – paging does not. No connection charge, no monthly rental – the calling part pays. It's a question of segmentation of markets."

Successful new messaging applications will be those that are modest, but not radical variants on current practices. For example, the PC running Windows applications software will be a familiar front-end for many business and personal computer users. The prospect of accessing a pan-European, indeed global network, through a communications software package will be about as daunting as loading and printing a document file.

Further feature-rich benefits of international wireless messaging will include the ability to connect a cable from the pager to desktop or notebook PCs, and let the PC store incoming wireless messages direct to the hard disk.

This could ensure critical messages are not wiped inadvertently from the device's volatile random access memory. You could, therefore, leave your pager behind and not miss messages, news or share prices.

Faxes can be easily collected on the move through Inter-City Paging's fax messaging service for pager users. Developed in conjunction with the police, the pager has a wide range of security applications

Even the pan-European digital cellular systems, GSM (Global System for Mobile Communications and its sister technology, DCS1800, would have trouble performing the tasks required in the nightmare scenario, outlined above. GSM and DCS1800 both offer a short-message service (SMS), but have a limit of 166 characters (about 20 words) per message. Compare this with Ermes' 9,000 characters per message and you start to see the limitations and possibilities. Wireless electronic-mail could also be a possibility, but this option too requires colleagues to be available, carrying their portable PCs fitted with radio modems, being within range of either a cellular network or a dedicated packet mobile data network – *and* powered up.

Message retrieval services would not be appropriate in the nightmare scenario; certainly, they would want the information – but *when?* The next day?

"Text messaging and personal wireless information services will be very important in the future," Mr Berntsen believes. "They will become a natural part of most people's working environment. I think they will need a pager – even if they have a mobile telephone. Ermes has the potential for giving such services to most markets, he adds. "We will see more creative ways of making information services that will also have a great appeal to the public."

Ermes also has capabilities to acknowledge receipt of transmitted information, though this is not seen by the Mr Berntsen as a particular enhancement that will be in demand at this stage, while it is not being ruled out for the future. With digital cellular promising voice, data and fax services, mobile data promising wireless email and remote dial-up data services and download functionality, wireless messaging can offer alphanumeric document transfer and real-time broadcast information services at minimal costs.

Clearly, the convergence process of historically disparate mobile communications technologies is well under way.

Growing interest in two-way radio paging services

A change of image in the US

Radio paging, perhaps the least glamourous area of the telecoms industry, is set for its own star turn in the US, thanks to a series of auctions of radio spectrum, staged by the Federal Communications Commission (FCC), in the summer.

The commission succeeded in raising over $600m from companies eager to bid against one another to acquire a new allocation of radio frequencies that will enable the winners to offer – for the first time, anywhere – two-way paging services.

The auction exceeded expectations and attracted bidders from outside the confines of the paging industry: two of the most successful were KDM Messaging, a wholly-owned subsidiary of McCaw Cellular, America's largest cellular operator which has been taken over by AT&T, the largest telecoms company in the world; and – among others – Destineer, a new company which has the backing of the software giant, Microsoft. Both companies appreciated how two-way services go beyond the limitations of the staid, limited-revenue potential of existing paging systems. New systems allow users to make and receive data messages and paging – sold as one of the new range of interactive multimedia services.

Destineer and AirTouch, one of the largest cellular operators in the US and a one-way paging operator which also bid successfully for some of the new frequencies, are looking at similar applications: both want to use two-way paging as way to invigorate the market for personal digital assistants (PDAs), the personal organiser-messaging devices launched last year by various manufacturers, including Apple Computers and AT&T. Initial sales of the Apple Newton Messagepad were disappointing; and AT&T's EO has been withdrawn from sale.

However, AirTouch in particular believes that PDAs *can* succeed if pitched at a business rather than consumer audience. The company is already using its existing paging network for trials to a PDA manufactured by the electronics company Casio and will extend the service to its new two-way frequencies next year.

AirTouch is also looking at new, industrial applications for paging such as a monitoring device which would be sold to suppliers of vending machines. A radio device, fitted inside a vending system, would emit a signal when it was time for restocking, thus saving the time and expense of regular checks by the vending machine supplier. All five of the US companies licensed by the FCC are looking at similar new ways of widening paging's appeal and increasing its already substantial penetration in the US – where, incidentally, eight per cent of the population owns a pager.

By comparison, in Europe, only three per cent of the population are pager-users; there is also greater market pressure in Europe as the cost of using cellular phones continues to fall.

Cellular, particularly since the arrival of digital phones based on the pan-European GSM standard, would swamp the European paging industry unless it can maintain its price differential or explore more advanced applications.

Two initiatives in paging during the past year demonstrate the way that European industry is getting to grips with the challenge:

☐ First, there was the launch of the MiniCall service last year by Sweden's state-owned mobile operator, Telia Mobiltel. This has had a significant influence on the marketing strategies of other European operators. MiniCall is known as a "CPP" service which stands for "calling party pays." In other words, the tariff burden is shifted from the pager-user – who buys the pager but no longer pays a one-off connection fee or monthly rental charges – to the caller who wants to leave a message. Instead of a standard local call tariff, the caller is charged at a premium-rate for leaving a message. The lost revenue from connection and subscription charges is more than made up by increased contribution from call charges, according to Telia Mobiltel. The Swedish model was closely studied by other-operators including BT and Mercury who launched their own versions of the service this autumn. BT gave their service an extra twist by offering it with the UK's first wristwatch pager, manufactured by Swatch.

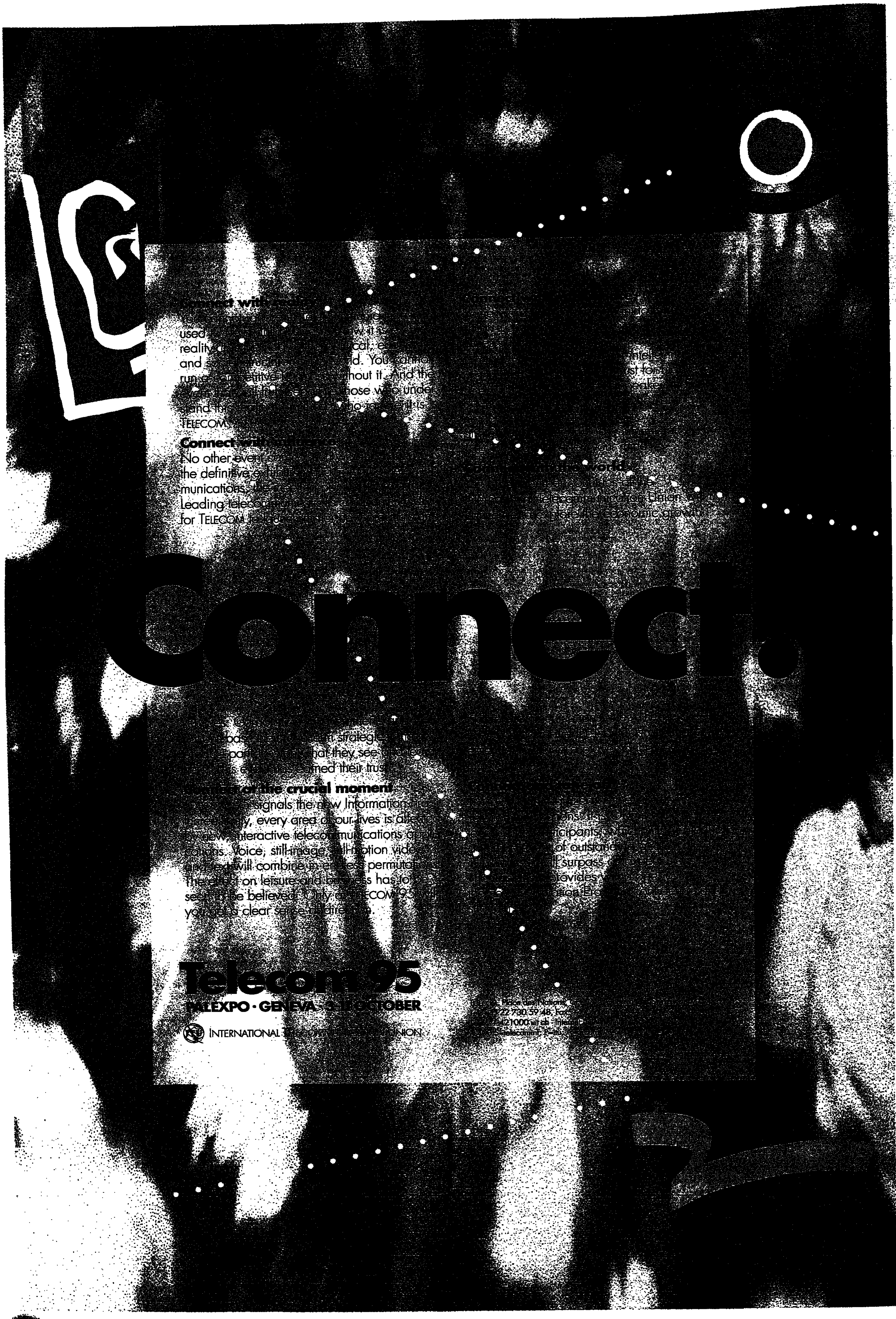
☐ Secondly, an important innovation in Europe this year has been the launch of digital paging services. Based on an European Commission-backed standard called Ermes (European radio messaging system), the system had several technical setbacks following interference to television sets in Germany, before its launch in France. Several other European operators are to start Ermes services in the near future; Telia Mobitel will launch its Minicall Europe service in the first quarter of 1995.

Initially, Ermes terminals will be significantly more expensive than today's pagers but they will offer a wider range of services. The system transmits messages faster and is capable of including more text in each message. Futhermore, users are able to receive messages electronically from computers on Ermes pagers.

Ermes' main advantage over existing paging systems is that, as a common European standard, it is possible for the first time to receive messages across Europe.

As the equivalent digital technology to cellular's GSM, which now has nearly 3m subscribers in Europe, Ermes must make a similar impression if paging is to shake off its dowdy image.

Richard Harford



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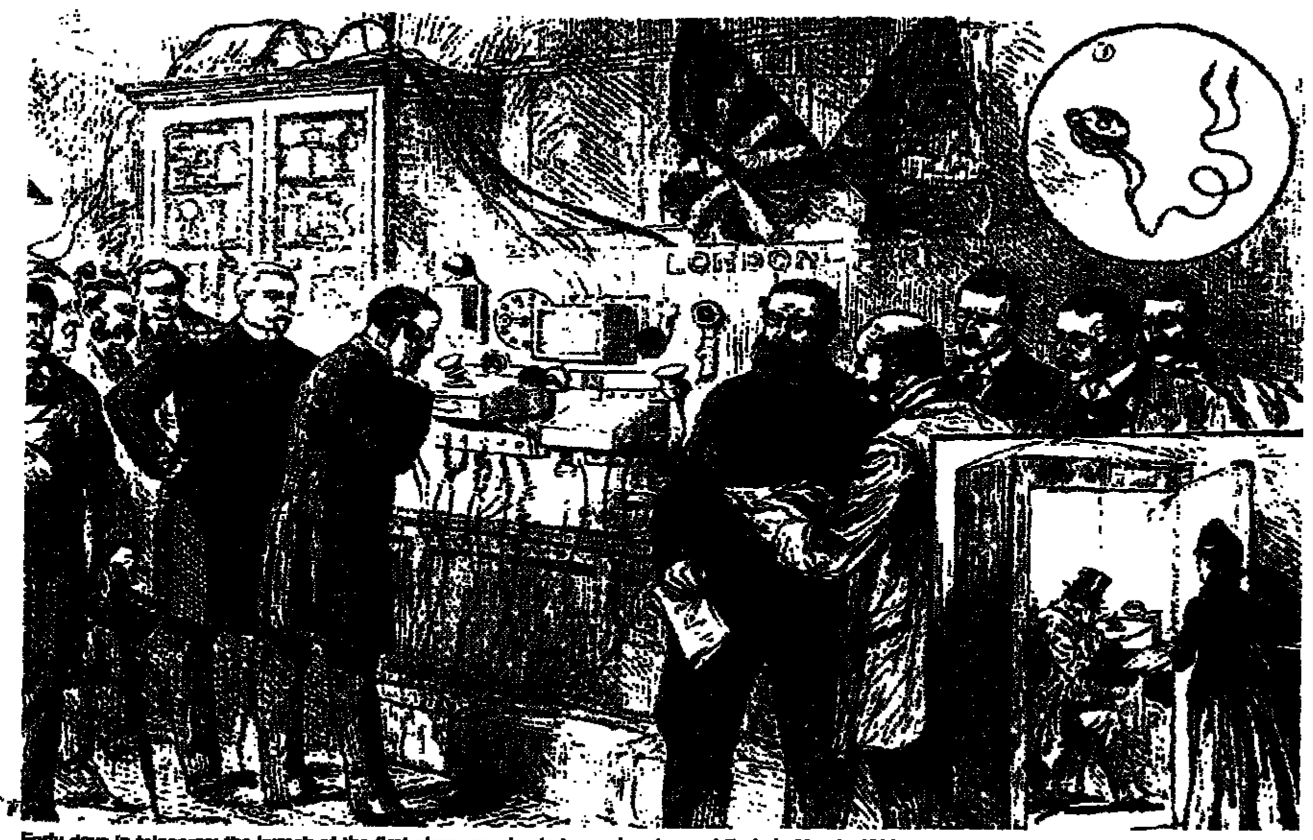


Early days in telecoms: the launch of the first phone service between London and Paris in March, 1891 BT Archives, London

City of London dealing room: investment in telecoms has remained strong in the financial community, despite the recession Picture: Lydia van der Meer

EQUIPMENT SUPPLY INDUSTRY

More power now for the users

Increased competition and the aftermath of recession have tilted the balance of power away from the telecoms operators towards the users, reports **Martyn Warwick**

International telecommunications was the industry which stood up best to the the global recession of the early 1990s. While many other industries suffered, telecoms kept going at a strong pace, often on the basis that while one country, trading bloc or applications sector declined, another one, somewhere, was bound to be on the way up.

Thus, while the market in Europe, the US and Japan stagnated, telecoms operators, manufacturers and equipment suppliers focused their attentions on the more buoyant markets of parts of South East Asia, the Middle East and Gulf and South America.

They also pitched for a share of the massive, but traditionally difficult, Chinese market and made forays into the highly uncertain world of post-communist Russia and eastern Europe.

However, while it is true that the telecoms sector survived the recession more or less intact, the prevailing conditions of that period have had a long-term effect. The present shape of the industry is, in part, the direct result of the realities of adapting to, and coping with a massive, worldwide, economic downturn.

The other big contributory element is the remarkable increase in international competition in the provision of telecoms equipment and services. It is interesting to note that research undertaken by the public telecommunications organisations (PTOs) in Europe indicates that 80 per cent of their business is in the domestic sector.

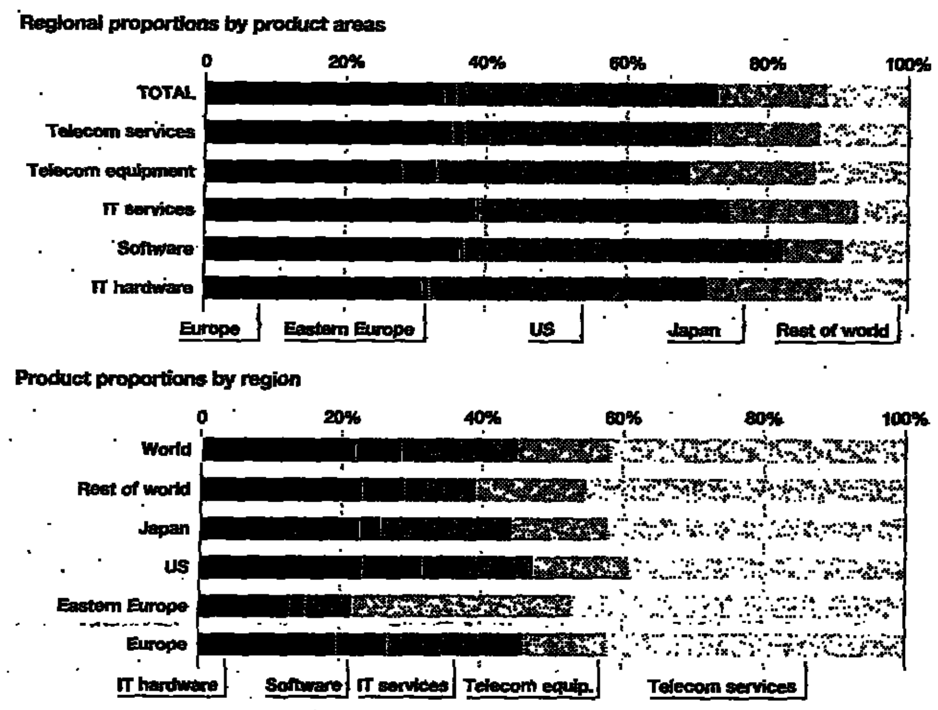
Of the 20 per cent that is non-domestic traffic, 80 per cent is trans-European rather than intercontinental. Of that European traffic, 90 per cent terminates within 1000 kilometres of its place of origin.

So, at first sight then, it might seems odd that European PTOs and other carriers are rushing into global alliances in the way that they are. The reason is competition: the battle to supply and service the world's biggest international companies is under way in earnest. Meanwhile, the combined effects of recession and intense competition lie behind the plethora of mergers, partnerships and alliances which characterise today's telecoms environment.

When the recession arrived, manufacturers soon discovered that even wealthy countries, such as Saudi Arabia and the UAE, cut back on infrastructure projects and expected even greater value for money. Tendering processes changed, competition intensified and margins were cut as prospective customers demanded – and won – more comprehensive and generally cheaper technological solutions, supplied to tighter specifications and stringent timetables.

It soon became apparent to the big industry players, as well as the second line organisations, that the pace of technological change combined with a new market dynamic, meant that no one company, no matter how big, could any longer claim to be able to develop and supply every component of a telecoms solution. The result has been a rash of affiliations and acquisitions as manufacturer has combined with manufacturer, supplier with supplier and operator with operator in an unprecedented series of industry alliances.

World markets: information communications technology



Source: European Information Technology Observatory - EITO 1994

The market for telecoms equipment is classified under several main headings: customer premises equipment, which includes private branch exchanges, terminal and mobile equipment; then there is service-providing equipment, which includes public switching and transmission gear; other main sectors include voice network services; data network services; installation and maintenance. Figures above are for 1993.

Some, such as the proposed Synoptics and Wellfleet merger, the Chipcom and Cisco partnership, the Cisco and Hewlett-Packard relationship and BT's coalition with the Nordic telecom operators, are carefully planned exercises which can be seen to have both immediate and long term benefits for all partners concerned.

However, there is a downside. Most mergers are described as alliances and partnerships, rather than takeovers, but in many cases retention of the name of the smaller company is an indication of the potency of its particular brand rather than its continued independence.

Some other corporate exercises, although presented as grand designs and strategic alliances, are, in reality, little more than panicky reactions to changed market conditions. It is more than likely that some of these will end in dismal failure. A new report from telecoms strategy consultants, Analysys, supports this conclusion, observing that established names in both the telecoms and computing-services markets could effectively disappear as wave after wave of alliance activity washes over the converging sectors of telecoms and information technology.

Alliances are taking place because manufacturers and carriers alike have to fill the gaping holes in their portfolios of offerings if they are to stand any chance in the battle for the mighty budgets of their target customers: the world's largest corporations and multinational businesses.

Companies with, or intending to build, global corporate networks have woken up to the fact that telecoms systems can leverage competitive advantage. The telcos have responded with a variety of initiatives, the most radical of which is the concept of "total outsourcing," whereby companies hand over complete responsibility for the design, deployment and management of their telecom systems to a carrier and its affiliated suppliers, partners and acolytes.

So far, the strategy has not met with great success, since many users, while apparently keen to contemplate a move from private to public networks, are unwilling to abdicate responsibility for a vital corporate lifeline until a number of important issues have been addressed.

A key concern is that carriers are carriers, and therefore cannot appreciate the subtleties and nuances of non-telecoms business sectors. Other issues of concern include the poor service and weak customer-care characteristic of some of the European and North American carriers, as well as restrictive contracts, uncertainty over cost comparisons and limited geographical coverage.

The telecoms research organisation, CIT, estimates that the total telecom spend by the world's top 1,000 companies will top £25bn by 2003. It is obvious then, that aspirant providers of global networks and end-to-end service packages must answer user concerns – or fail in a market of massive strategic importance.

Carriers are also striving to develop and market the ultimate carrier service: as power and bandwidth continue to become cheaper, business is looking for a true multimedia information exchange system which will interconnect LANs and WANs and provide voice, image, video, data, information processing and even entertainment services across the corporate network.

The provider alliance that can provide such a system at the right price – and that does not necessarily mean the first one to market – will have the world at its feet and emerge as the telecoms carrier equivalent of Atilla the Hun.

□ *The writer is deputy editor of 'Communications International.'*

New mobile communications application

Tactical advantage for racers

As the European cycle racing season draws to a close, riders on the Motorola squad will be hanging up their Lycra and switching off their radios. For three years the American-based team has been using lightweight portable radios to give it a tactical advantage and to improve race safety.

In the big races like the Tour de France, Giro d'Italia, the Spanish Vuelte and the Tour DuPont in the US, the teams of up to nine riders each have to keep in touch with their managers who follow in cars. They need to know when team tactics are changing and when a colleague needs help.

Traditionally, the manager has driven alongside the riders and barked instructions. The Peloton Communication System that Motorola uses means this dangerous manoeuvre is no longer necessary.

Each of the riders carries a receiver in their jersey pocket and an earpiece fitted into his crash helmet. It can pick up the manager's signal at up to four miles away, a distance that can easily separate first and last riders on an Alpine race.

To keep the manager informed of what is happening in the centre of the bunch, one rider in the team has a transmitter unit, weighing eight ounces, fitted under his saddle and a microphone mounted on the handlebar. He tells the manager whether any teammate needs attention and how rival teams are performing.

The Motorola team reckons the system gives it a competitive advantage. The team spokesman and former Tour de France cyclist Paul Sherwen is convinced it helps them to win – "in the Paris-Nice five-day race last year, our rider Frankie Andreou got out front in a breakaway group," he says. "It became clear that he was wondering whether he should drop back to conserve his energy. Then our team leader realised that the chasing group was tiring and the message went to Frankie to keep up the pressure. As a result, the breakaway survived much longer than it would otherwise have done."

He also believes the team's radio saves time – "if you are in the middle of the main bunch of up to 200 riders and you have a puncture, you put your hand up and hope that a race official sees it quickly. The official then gets a message to your team manager who drives forward with a spare wheel. It can take more than a minute to get help," says Sherwen.

Similar equipment has long been in use in automobile racing. Motorola has worked with the Benetton Formula 1 team and with Indy Cars in the US, but every ounce counts when cyclists have to pedal for six hours up 12,000 ft mountain roads. "Motorola managed to cut the weight of the receiver unit to just 2.5 ounces by modifying a standard Minitor pager," says Paul Sherwen. "It is just light enough for the riders to accept the burden."

Max Glaskin

VALUE-ADDED SERVICES

Surprising collaborations emerge

Phone companies and software suppliers aim to reap the benefits of the electronic mail bonanza, reports **Monica Horten**

To ask a telephone company to do joint marketing with a software company is a bit like asking the tortoise if it would collaborate with the hare. It seems like a complete mis-match in commercial culture. Yet that could be just what the phone companies have to do in order to boost their value-added services business.

The reason is electronic mail. Email is one of the fastest growing software applications for personal computers. Software giants Microsoft, Lotus and Novell/WordPerfect have targeted communications as the next big growth area for their own applications. They have simplified end-user email software and are aggressively pursuing it.

One of the problems with email services in the past is that they were not user-friendly, and were usually accessed by equally unfriendly communications software.

Lotus, Microsoft and Novell/WordPerfect have evolved software which makes it easy for people to send mail, directly from their spreadsheets and word processors: what they call "mail enabled applications." It uses the same interface that people are used to in their other applications, so that people do not need to learn a new way of working just to send mail.

Jenny Proctor, UK marketing director of AT&T Ezylink, cited the example of economists in the City of London who want to replace fax with email for sending reports to customers. This is the direct result of the improved personal computer software – "in the finance sector, mail enabled applications are a growth area," she says.

This should be good news for the telephone companies, which have the opportunity to sell services to support the increased demand for connectivity – "software companies such as Microsoft have simplified end-user software, and are promoting telecom activities. This is now acting as a driver for messaging services and frame relay managed data network services," comments Neil Lawrence, applications and information marketing manager at British Telecom.

The corporate email systems typically run on local area networks (lans); lans in different buildings are connected to create an "enterprise-wide system."

One way to achieve lan-to-lan connections is to use a frame relay managed data network service – frame relay being a faster method of transmission than older packet switched data networks and more suitable for connecting lans. This segment of the market is currently small, with an estimated value of Ecu60m ($74.4m) across Europe, according to London-based market research consultancy Ovum; this is due to the fact that frame relay is a new technology.

However, sales are growing fast, and vendors such as BT and AT&T report that they are struggling to keep up with demand for frame relay services: BT claims this segment of the market is growing at 300-400 per cent, per year. Ovum analyst Clare McCarthy predicts a sharp upturn in growth from 1996 onwards – "by 1998, we are looking at projected European revenues of around Ecu800m ($992m) for frame relay services," she adds.

Another way to connect lans is to use the public email services offered by the telephone companies. Most email services provide a simple way to connect the popular proprietary lans such as Lotus cc: Mail and Microsoft Mail. For example, cc: Mail users could connect to a service and send mail between two sites without ever knowing they were not using cc: Mail all the way. According to Ovum, this market will grow at an average of 53 per cent a year in Europe.

End-users of telecom equipment now have more influence over purchasing decisions

However, in order to reap the benefits of the email bonanza, the telephone companies have to become as aggressive in their marketing tactics as the software companies themselves. It represents a significant cultural shift away from traditional telephone company thinking.

According to Mr Lawrence, there has been a sea change in the way user purchasing decisions are taken. In the past, users would go through the IT department to get email. Now they buy it out of their own budget – "end-users are now becoming more influential in purchase decisions," he says.

To attract end-users, the phone companies will have to work with Microsoft, Lotus and Novell/WordPerfect on product marketing as well as product development. For example, BT has a collaborative arrangement with Microsoft which permits geographically dispersed workers to use Microsoft groupware software for collaborative working over ISDN lines.

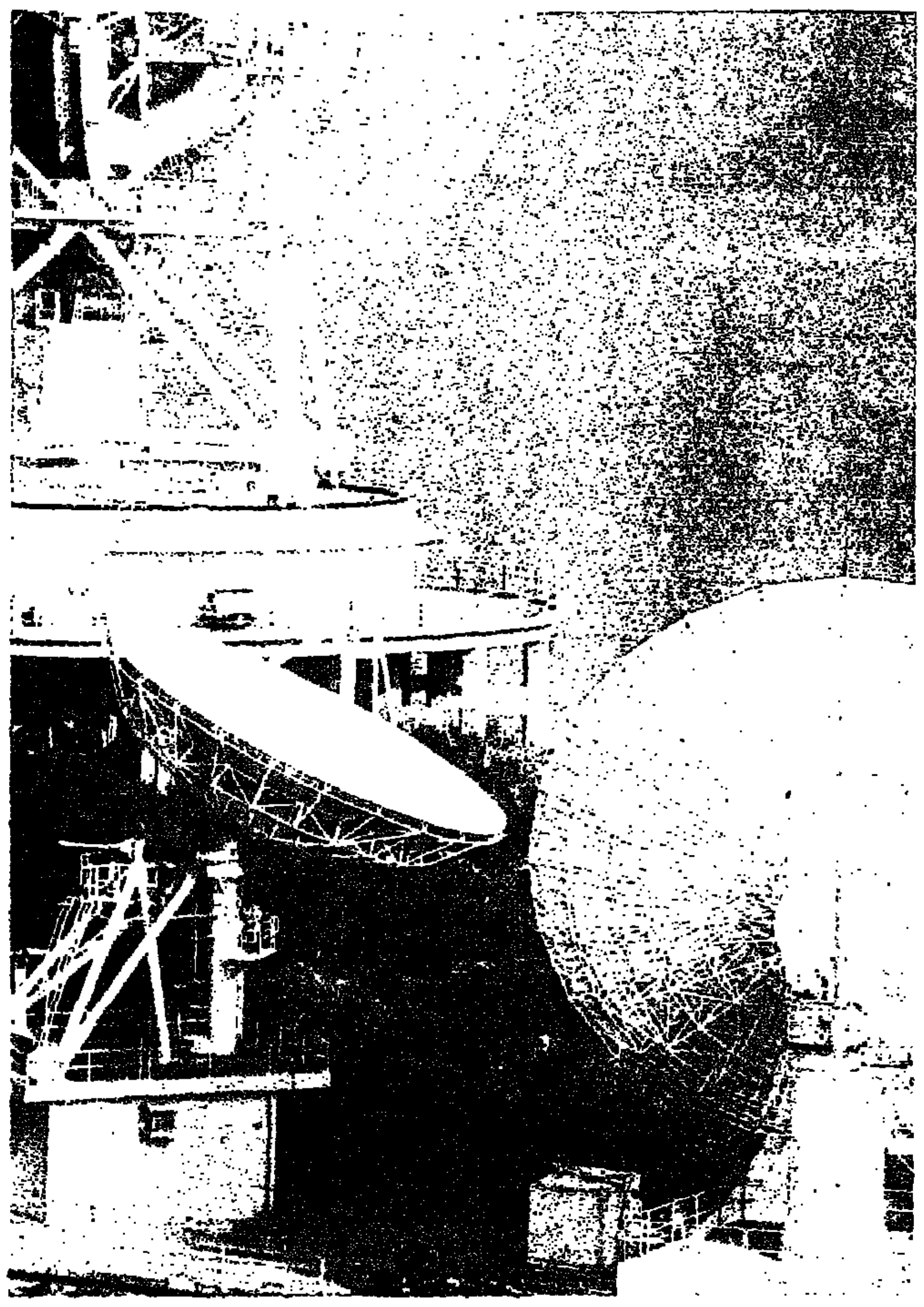
This will be an odd situation for most phone companies. According to some industry observers, those who have faced competition in core services, such as the US or UK phone companies, should be flexible enough to cope. Others will have difficulty, especially those which still operate in a non-competitive monopoly environment.

End-users are also being attracted by the Internet, and Compuserve, two global network services which actively target individuals, and sell the benefits of going on-line. They are pursuing high profile marketing campaigns and are creating an awakening as to the possibilities of email.

This could represent a further threat to the traditional email networks as operated by the telephone companies. The

continued on next page

Network management centre: with the globalisation of business, large companies demand an uninterrupted flow of information, flexible provisioning and a range of transmission options. The Cable & Wireless support centre, above, is open around the clock, 365 days a year.



Hong Kong Telecom's satellite dishes: this earth station links the global digital highway network of Cable & Wireless, using satellite capacity between London and Hong Kong

Telecom reforms: lessons learned

Monopolies will have to be abolished

Book review: 'Implementing Reforms in the Telecommunications Sector: Lessons from Experience.' Edited by Bjorn Wellenius and Peter A Stern; The World Bank, 757 pages; price $59.95

Bjorn Wellenius is telecommunications adviser to the World Bank and a respected authority on telecoms development and restructuring. He and Peter Stern have done a great service to governments and the telecoms industry by bringing together this collection of studies on the international experience of reform in the telecoms sector.

The lessons are of critical importance to developing and developed countries alike. Virtually everyone agrees that telecoms modernisation is a spur to economic growth, and will become steadily more important as the information revolution advances.

Governments start from starkly differing positions, within as much as between regions. At this summer's conference of the Asia-Pacific Telecommunity in Bangkok, a speaker hailing the advance of the superhighway in Australia was followed by another from Papau New Guinea recounting the treks faced by villagers wanting to reach a rural pay phone. There is no pretence in this book – which includes case studies of countries at all stages from development, from Sri Lanka to France – that reform can proceed without allowance for distinctive national and regional traits.

Nor is there any simplistic assertion that "big-bang" change is the only viable strategy. The US telecoms industry has retained its leading edge within the confines of a law drafted in 1934 – which looks set to survive for some while yet following the collapse of this year's Congressional legislation – while the Canadian telecoms industry operates within a law adopted in 1906 which is only now being redrafted.

In the developing world, "build, operate, transfer" contracts have evolved to inject private and foreign capital without breaching formal monopoly regimes.

Even China's ministry of posts and telecommunications looks set to devise an elaborate ruse to the same effect, following contracts signed in principle this month with Cable & Wireless, the UK group which owns a majority stake in Hongkong Telecom.

Yet the basic argument of the book, repeatedly propounded by the editors and contributors, is simple and universal in its application: that the only effective way to counter persistent shortfalls in telecoms investment is for governments to attract greater private sector participation. And that can only be done by abolishing monopolies, withdrawing the state from the direct provision of services, and opening up telecoms services and infrastructure to new entrants.

Radio pagers as a fashion accessory: in south-east Asian cities, the smart office worker may often keep in touch with the company by using a private mobile radio system – in a range of colours from red to racing green. The systems being worn here are Philips Messenger pagers, offering tone, numeric and text facilities.

Wellenius and Stern note in the preface: "Traditional state monopolies are giving way to more complex sector structures that seek to overcome past constraints on telecoms development through commercialisation of operations, competition and private sector participation."

Six hundred pages later, Richard Schultz wraps up the study with a subtle attack on the "exaggerated fears of restructuring," highlighting the "enhanced and refurbished" role left for the state after privatisation and regulatory reform. For policy-makers, the most useful of the 39 intervening chapters are the introduction and the regional overviews, which set reform programmes within the broad parameters of public sector constraints and the demands of private investors.

The introduction by Wellenius and Stern is about politics as much as telecoms. Discussing the slow pace of reform in sub-Saharan Africa, they note that the region could have "most to gain" from reform but that little has happened in part because "national security is still a politically significant issue, compounded by a broader concern about foreign control of key factors of economic production and distribution". The rapid development of telecoms in Latin America is explicitly linked to the return to democracy across the region in the late 1980s.

The thesis that economic liberalisation requires prior political liberalisation is hardly novel, nor is it necessarily disproved by China's experience.

In the case of telecoms, however, it is a challenge to those, notably in the US, who see telecoms development and the "global information infrastructure" as a means to promote democracy and all that goes with it. The reverse is probably the reality. I shall never forget a phone interview earlier this year with a western businessman in Rwanda's capital of Kigali, across a brilliantly clear fibre-optic international line, as he described the slaughter and mayhem taking place in the streets outside.

Latin America is the developing-world model which inspires the authors. Chile led the way with privatisation in 1987; in Argentina, Mexico and Venezuela subsequent privatisations were completed in less than two years (only in Mexico was much done to improve the network before privatisation); and most other countries in the region have followed suit.

In his over-view, Wellenius pronounces most of the reforms broadly successful, although he notes serious regulatory issues which remain unresolved. His rule of thumb is that privatisation and liberalisation can be carried through in two or three years, but it takes a decade to sort out the regulation.

A key factor in the Mexican reform process was the opening of the cellular market to competition at an early stage of the reform process. This is also the case across Asia-Pacific and Europe, where competition in cellular networks is now widespread and is being extended to fixed-line networks.

There are three clear benefits to such an incremental strategy: it obliges governments to tackle inter-connection and regulation of the state operator before its main business is subject to competition; it forces the pace of reform in the fixed-wire sector, where political and trade union obstacles to change are greater; and it brings together consortia, often led by non-telecoms groups such as Mannesmann in Germany and Bouygues in France, which can move across to the larger fixed-wire sector as liberalisation advances.

The mobile communications sector, becoming ever more important, is strangely neglected. The absence of an index is frustrating. But the book is nonetheless a bible for those contemplating structural telecoms reform.

Andrew Adonis

□ Continued from previous page:

Business users are attracted by the Internet

take up of traditional email does not match the quoted numbers for the Internet, which has 30m users worldwide. The Internet – or "The Net," as it is commonly called – covers around 140 countries and is expanding at the rate of ten per cent a month. Well over two million computers are linked to the network.

In the UK alone, there are a million Internet users and numbers are growing, according to David Mooring, marketing consultant with Pipex, a reseller of Internet connections.

Pipex and others are targeting corporate customers, and they could provide more of a competitive threat to the traditional electronic mail services market. Mr Mooring points out that today most of those users are academics, but adds: "The number of commercial users is growing. I reckon that in a year's time there will be more non-academic users than academics."

However, Neil Lawrence believes that business customers are attracted by the concept of the Internet, but find they need the greater security features of the business messaging networks. "Once people consider investing, they ask 'Is it secure?' and 'Do I get an audit trail?'" he says.

Mr Lawrence reports an increased number of enquiries for British Telecom's messaging services in recent months, in response to the Internet marketing campaigns.

Jenny Proctor believes the email market will split into two groups: serious business applications and personal "chat"/lightweight business use.

She sees an emerging group of business customers who will require a more sophisticated electronic mail service, which the telephone companies are in the best position to provide.

FINANCIAL TIMES SURVEY

BUSINESS SCHOOLS: AN A-Z GUIDE

Monday October 17 1994

Though there are signs of a pick-up in demand for MBA courses and executive programmes, management institutions in the US and Europe are still hesistant, writes **Tim Dickson**

An image that is blurred by diversity

Logically speaking, business schools should thrive in a period of uncertainty and rapid change. The knowledge, ideas and high octane brainpower with which the best ones are blessed, after all, are potentially priceless assets for companies seeking a competitive edge.

Yet for all the campus insights into derivatives trading, global markets and how to harness information technology – not to mention "softer" issues such as leadership and teamwork – management education institutions in the US and Europe are in a hesitant mood. There are tentative signs, to be sure, that demand for executive programmes has picked up and that more young managers may again be prepared to invest in their own futures by embarking on a full- or part-time Masters of Business Administration (MBA) degree. But amid the fragile hopes for an early recovery, anxieties remain.

Have business schools yet done enough to dispel their old image of inward-looking institutions semi-detached from the real world?

If so, how do they retain the best academic values of the universities from which many were spawned while addressing the pressing short-term needs of their commercial customers? Is co-operation with competitors the only way to achieve critical mass internationally? And like the companies they advise, how do they hang on to, and manage, their own top talent?

At least schools appear to be shaking off one persistent shadow, namely the never-very-convincing argument that formal management education is a waste of time, that there is no substitute for seat-of-the-pants learning.

Few would quibble with the second part of that statement – hence the rethink of MBA courses to include more project work and the growth of short "company specific" training programmes – but the ever-growing complexity of general management these days and the speed with which new ideas and information flow across national boundaries have also reinforced the value for executives of stepping outside their own immediate working environment from time to time.

That message, however, now has to be powerfully sold by business schools in a way which was almost unnecessary in the more free-spending 1980s: the marketing of courses of all kinds is an increasingly sophisticated, time-consuming and expensive activity.

The extra effort is partly the legacy of a recession which slashed corporate training budgets, reduced through "delayering" the pool of middle managers who traditionally fill most seats in classrooms, and left those remaining in work so preoccupied with the task of self survival that "time-outs" at business school became impractical.

The job market, moreover, became markedly more difficult for graduating MBAs – and salary premiums less juicy – requiring schools to invest much more energy in helping students with their careers.

Even if there is anecdotal evidence of recessionary pressures starting to ease, the direction, scale and sustainability of demand remains far from clear. While top European and US schools are reporting more interest in executive programmes, the extent to which this has affected so-called company specific programmes as opposed to open ones (where participants come together from different organisations) seemingly varies from institution to institution.

The MBA outlook is equally patchy. Professor George Bain, principal of London Business School, concedes that there has been an important shift in the market from full-time programmes to part-time courses which can be combined with a full-time job. LBS reduced the size of its recent full-time intake – "to preserve the quality of participants" – but Prof Bain says the school is experiencing "buoyant" demand for its (part-time) executive MBA.

Prof Leo Murray, director of Cranfield School of Management, says demand for his full-time programme has recently been "much better" – but he agrees that the market as a whole has continued to grow in the UK only because of the various part-time delivery mechanisms, notably distance learning.

To a large extent, such diversity should be welcomed: it makes management education accessible to a far wider range of participants, not least managers in the public sector (or former public sector) who are much better represented on courses offered by the new universities or former polytechnics than they are in the more established business schools.

On the other hand, the bewildering range of MBA suppliers today – the number of business schools increased fivefold in the UK in the 1980s – has altered the image of what was once a relatively uniform and internationally tradeable passport to business success.

The market is no doubt the most reliable judge of quality and the American system of independent business school accreditation sometimes cited as a model far from ideal; nevertheless calls for tougher standards and better consumer protection are unlikely to fade away. "It would be nice to be able to distinguish the real thing, like champagne," says Mr Ludo Van der Heyden, co-dean of Insead.

One issue which schools can no longer duck is the changing nature of their relationship with companies. As with all businesses, the customer is getting closer. To some extent this is a funding issue – Insead last year went out to corporate sponsors to build up an endowment of permanent capital – but it is also what big companies increasingly expect.

"In the past businesses looking for a company specific programme wanted just that – a programme," explains one dean. "Now it is a mix of learning, consulting and research. The course we run would be a catalyst for change throughout the whole organisation and would typically be preceded by a lot of consultancy."

Mr Mike Osbaldeston, chief executive of Ashridge in the UK, says that consultants and management educationalists now often work together. "The dividing line is becoming increasingly blurred," he suggests. "Whether you are developing individual managers or organisations doesn't matter – companies themselves are trying to do both".

Mr Osbaldeston believes that business schools on the whole have thrown off their "remote, academic and insufficiently practical" image, though he says the picture lingers on in some sections of the press.

Nevertheless, formidable challenges remain as schools try to make sense of today's corporate quicksands, as much for themselves as for their clients. The need to be more international – in terms of students, faculty and course content – is one clear imperative but achieving the right balance has not been easy for institutions with mostly strong domestic roots. Hence the popularity of exchange programmes and alliances, a trend which is likely to lead to closer cross-border co-operation between schools.

Business school curriculums, meanwhile, require more than just an international flavour. Much soul-searching has already been devoted to translating the old vertical approach (marketing, finance, economics, etc) into a more integrated, cross-functional teaching style (better reflecting real world problems). The experimentation phase has yet some way to go.

The remaining contents of this survey – which concentrates largely on the MBA rather than company programmes as such – are an attempt to spell out some of these issues for would-be participants and recruiters alike.

A

After the golden age

APPLICATIONS

In retrospect, the late 1980s look to have been a golden age for European business schools: between 1987 and 1990, for example, MBA student numbers grew at an estimated compound rate of 18 per cent per annum in the UK. Recent trends, though, have been more sobering. Recession, rising job insecurity, and industry and media criticism of the MBA's relevance have visibly checked the expansion of traditional full-time MBA programmes.

The question now is whether the 1994-95 student intake will turn the tide. So far, the signs are mixed. In the UK Warwick says the number of applicants for its one-year full-time MBA programme increased by 5-10 per cent this year and predicts "one of the best classes ever". Lancaster is also upbeat, reporting a 20 per cent increase in demand for the 50 places on its full-time course – "to levels higher than before the recession in 1990". Other schools indicate that there is an increase in the numbers actually signing on of 4 to 20 per cent.

On the other hand, London Business School, the market leader in the UK, accepted only 140 students for its two-year full-time programme beginning in September, against 180 this time a year ago (a figure which itself was slightly down on 1992). London, which points out that it still had more applicants than last year, explains the fall by its determination to select only top quality candidates.

Insead's September intake of 235 is marginally up on last year with Ms Helen Henderson, the school's admissions director, reporting that candidates are "better prepared and more committed" than at the end of

Continued on next page

BUSINESS SCHOOLS: AN A-Z GUIDE II

After the golden age

Continued from previous page

the 1980s: IMD considered expanding its MBA class to two sections but is glad it did not: its "conversion" rate is high with only 100 offers needed to fill 83 places this year.

While part-time programmes have generally held up better to recession, the tentative evidence so far this year is also mixed. The Association of MBAs suggests some employers are more reluctant to sup port their employees with the payment of fees. Reliable distance learning figures are even harder to establish: Amba estimates that around 4,000 new students started programmes in the UK in 1993-94, against more than 3,100 a year before. It is too early to gauge demand *for the "class" of 1994-95.*

The big issue is quality

ACCREDITATION

Given the proliferation of schools and courses, quality control is now a big issue in western management education. *In the US the American* Assembly of Collegiate Schools of Business (AACSB), which drastically revised its criteria a couple of years ago, accredits most institutions offering the MBA and other Masters of Management qualifications.

Europe has no single authority but the nearest equivalent is the UK-based Association of MBAs (Amba), which administers an accreditation scheme linked to a soft loan programme for UK students.

Amba has accredited roughly a third of the UK's 99 business schools, plus a dozen of their leading continental European counterparts. Last year it accredited a distance learning course for the first time.

As university institutions, UK business schools must be accredited by the Higher Education Funding Councils, which are charged with assessing the quality of teaching and research.

However, the funding councils' approach to inspection and assessment might not be much help to applicants trying to choose a business school. For teaching, the funding council for England separates university departments into only three grades, one of which has not yet been used.

Every English business school's teaching is either "excellent" or "satisfactory", according to the council. Had any institution been found to be "unsatisfactory", the third *available ranking, there would* have been serious questions over its future.

An "excellent" rating is a genuine feather in an institution's cap, but "satisfactory" is very broad.

B

Buzzwords buzz off

BUZZWORDS

Business schools are bursting at the seams with buzzwords. "Internationalism", "leadership", and "soft skills" are three which are hard to miss on most campuses at the moment.

The thing to remember is that many are fads – here today and gone tomorrow. Seventy-five per cent of all quality circles begun with enthusiasm in the US in 1982, for example, had been discontinued by 1986. The management writer Richard Pascale neatly illustrated the point in his book Managing on the Edge (Simon & Schuster, 1990) with a graph showing the ebbs and flows of business fads based on the frequency of citations in academic literature.

C

Both sides of the case

CASE METHOD

The case study method is the *best-known – and now possibly* the most controversial – form of teaching in business schools. Pioneered in the US and closely identified with Harvard, the term case refers to a written description of a business situation faced by a decision maker at some point in time. Names, places and other *details* are sometimes disguised but they are almost always based on real events *and real people.*

The case study method has also been widely adopted in Europe, where the undergraduate business teaching approach has traditionally been instruction based. "We agree that cases are a very good simulation for future settings," says Mr Ludo Van der Heyden, co-dean of Insead, which along with IMD at Lausanne is spearheading a drive to research and *publish* more cases about European companies. "We find that students remember them and the concept they are meant to illustrate years later."

Manchester Business School students working in a syndicate group

Nevertheless, Mr Van der Heyden feels cases should not be over-used, that they are sometimes too long, and that they should be a vehicle for illustrating wider issues rather than reaching a specific solution. "A good case teacher will not discuss a case to death. In *the middle of the class he will* start generalising and moving away from the case," he suggests.

Insead, which also favours the use of simulated games to provide what Mr Van der Heyden calls "a more dynamic and controlled effect," is harnessing computer and video technology to produce what it calls "business navigation cases". In this way the school believes students can better put themselves in the dilemma of a chief executive – with access to much more information than would be provided by a conventional paper case and faced with a more "real-life like" range of variables.

Recent research by the European Foundation for Management Development – based on a survey of 86 graduate schools *that provided 141 MBA or man*agement programmes offering masters' degrees – showed that *more emphasis* will be put on the case study method, group discussion and simulations and "other methods" during 1994-95 courses, and less on the lecture approach and project work.

Short of breadth

COMPANY MBAs

These are MBAs tailored specifically for a single company and are another peculiar feature of the UK market.

Very often, part of the course is taught by company staff, for which credits are given, with the rest done by a partner business school or university.

Academics are often critical of company MBAs. Warwick Business School, for example, takes the view that "single-company or single occupation MBA programmes diminish *not only that MBA programme* but also its value to students".

Warwick argues that "the *fulcrum of* the MBA's value is its breadth", breadth which comes both from the way courses are designed and from having a rich mix of class members whose varied backgrounds add to the learning experience.

Among those schools active in the company specific field is Henley, with 22 programmes running at the moment for, among others, BICC, Grand Met and Standard Chartered Bank. Lancaster runs single company MBA programmes for British Airways and VSEL.

The club sandwich

CONSORTIUM MBA

This is really a compromise between the company MBA and a standard full-time or part-time degree open to everyone.

The company variety (see Company MBA) can be criticised for failing to provide the sort of stimulation that comes of having participants from different organisational cultures; some standard MBAs are accused (by employers at least) of being too general and insufficiently relevant to the needs of employees.

The so-called consortium version is where a number of companies – often each from a different sector and therefore non-competitors – club together to find a programme which is structured round their needs. The business school which awards the degree keeps an overall eye on the academic content of the programme.

One of the pioneers of this approach was the City *University Business School.* More than 20 companies are involved in CUBS' so-called management MBA, including American Express, Lloyd's of London, IBM UK, Anglian Water Services and Ford Motor Company.

Lancaster runs what it calls a multi-company modular programme for British Airways, Royal Mail, BNFL, North West Water and British Gas, among others.

Henley has recently launched a European consortium MBA administered by its associate in Munich. The programme's 15 participants come from three different nationalities and five different pan-European multinationals (*Mercedes-Benz, Deutsche* Aerospace, Continental, Union des Assurances de Paris and *Credit Commercial de France*).

The burdens are heavy

COSTS

The MBA can involve a large financial sacrifice. The cost of a one-year, full-time course in the UK can be well over £20,000, taking account of living costs and lost earnings opportunities. A two-year course at a US business school could cost a total of some $80,000.

Business school fees are continuing to rise, although the pace of increase has slowed down recently, following several years of steep increases. Last year, fees roughly rose in line with inflation.

Top US schools, such as Harvard, MIT, Stanford and Wharton, charge fees of about $20,000 a year. European schools, which tend to take just a single year to complete, are cheaper. However, a top school such as Insead costs FFr145,000.

Most UK business schools charge fees of around £6,000 to £8,000. But there is a large range, from £5,000 for Heriot-Watt University to £15,000 for Manchester Business School.

Fees for part-time MBAs are often more expensive than full-time courses, but the financial pressures on the student are reduced by continuing to earn a salary.

The heavy cost of taking an full-time MBA is one explanation why part-time and distance learning programmes are becoming more popular. In 1992, more than two-thirds of MBA students remained in employment while studying.

Some of the costs of pursuing a two-year, full-time MBA can be defrayed by getting an internship in the summer vacations. Students are sometimes *able to combine* studying with part-time work in two-year courses when the work pressures are not too intense.

D

The way of the future

DISTANCE LEARNING

An almost exclusively British style of MBA delivery at the moment, many experts feel distance learning is the way of the future. For others the very idea of a correspondence course contradicts the classroom teaching and group discussion approach, which they say is the essential heart of this postgraduate qualification.

Students on a distance learning course study from home – usually on their own in the evenings or at weekends – but they are often assigned a tutor whom they can contact with problems and attend summer schools, weekend seminars, and local support groups. Programmes typically take at least three years – sometimes considerably more – to complete.

The Open Business School, whose teaching material is widely admired, is the market leader in the UK and is expanding into Europe. More than 5,500 managers are studying for its MBA (including about 800 on the Continent). It expects to be providing more than 20 per cent of all UK MBA graduates within two years.

Henley Management College is well-established and was also early into the field. It now has more than 5,000 students on its distance learning programmes, either registered directly with Henley or through one of the school's 19 associates around the world.

Warwick's 1,000th distance learning graduate will emerge *next summer.* Another early pioneer, the school has over 1,500 students at various stages of its three- or four-year programme, based in more than 70 countries. Warwick is keen to stress its flexibility, pointing out that students can start on a part-time MBA within travelling distance of the City and transfer to, say, distance learning if moved to another part of the UK or overseas.

Heriot-Watt claims to have attracted more than 8,000 students over the last three years, *including students sponsored* by multinationals such as IBM, Toshiba and General Motors. The school says its course material is entirely self-sufficient and that there is no requirement for tutor contact.

Kingston University, south of London, and Durham University in the north of England are among other schools offering MBAs by distance learning.

BUSINESS SCHOOLS: AN A-Z GUIDE III

It's too much for them

DROP-OUTS
Only a very small proportion of students drop out of full-time MBA programmes in Europe and the US. The majority of these are probably caused by ill-health: even at the best schools candidates who have passed the admissions test are sometimes forced to leave if they fail to perform.

The casualty rate for part-time courses and distance learning – particularly the latter – tend for fairly obvious reasons to be higher. Combining an MBA course with a full-time job presents special challenges and the isolation inherent in studying from home proves too much for some candidates.

E

Learning over there

EXCHANGE PROGRAMMES
As MBA courses try to become more international, some schools are offering students the chance to spend a term overseas at schools to which they are affiliated.

For example, Manchester Business School is affiliated to 40 schools including Kellogg, Chicago and Berkeley. London Business School organises exchanges with 25 business schools around the world.

The demand from students for exchanges, which typically occur in the spring term of the second year, often exceeds the availability of places.

Students generally relish the stimulation of living abroad and studying at a different school for several months. The potential disadvantages of exchanges include incurring extra living expenses and spending time away from the job search.

Rolls-Royce of the market

EXECUTIVE MBAs
Sometimes used in the UK as an alternative title for part-time programmes, the executive MBA is normally used to denote the seniority of the "students" involved. This type of course is also generally regarded as the Rolls-Royce of the MBA market, being aimed at high-flying executives whose companies pay the fees.

Particularly popular in the US, these courses are typically held on Fridays and Saturdays and in week-long "bites" and field trips. Employers are often attracted by an approach which combines work and theory in a potentially valuable way.

The University of Chicago School of Business is using a newly launched executive MBA programme at Barcelona to spearhead its international expansion. The part-time programme – 10 modules of one to two weeks spread across 18 months – is the first one a leading US business school has offered in Europe that leads to a degree.

The bulk of the first intake – which had their first class in July – are from European companies and almost all have at least 10 years of work experience.

London Business School's next executive MBA course does not start until January but a spokesman said that inquiries had doubled over the last year. London also belives that companies such as Bankers Trust, Mercury, Blue Circle and British Airways are using flexible options like its executive MBA as a strategy for *retaining* high flying managers. "This, of course, is only feasible in a programme where participants do not leave their jobs".

F

What banks will lend

FINANCE
The most popular method of financing a MBA is through savings although bank loans also play an important part.

Many countries offer students help in financing MBAs through low-interest, long-term loans offered to students either with government backing or through private banks.

In the UK, Amba administers a Business School Loan Scheme on behalf of Barclays and National Westminster banks.

For students doing a full-time course, the bank will lend a maximum of two-thirds of last salary plus tuition fee for each year of study at a reduced rate.

The repayment of the loan, which takes up to seven years, starts three months after the completion of the course.

Take-up of the loan scheme is currently running well below levels at the turn of the decade, reflecting an unwillingness on the part of borrowers to take on debt and an unwillingness on the part of bank managers to lend to MBA students without collateral.

Students on a one-year course who are not accepted for an Amba loan may be able to apply for a Career Development Loan.

Repayment of the loans, which are organised by the Department of Employment with Barclays, the Clydesdale Bank and the Co-operative Bank, begins three months after the study period is completed.

Some students get financial support from employers, particularly those doing part-time MBAs or distance learning MBAs. Amba estimates that 60-70 per cent of finance for these courses comes from employers.

Although some employers do contribute to fees of full-time MBAs, they are generally deterred by the likelihood that students will want to change jobs at the end of their course.

Full-time gets shorter

FULL-TIME MBAs
The classic model for the MBA, developed in the US, is the two-year full-time programme. While this is still the norm in North America, one year is now much more typical in Europe.

Only London Business School in the UK, for example, now offers a two-year course with IESE in Barcelona a rare continental example. Manchester (which now promotes its programme as a 12-month minimum, 19-month maximum, or 15-month "standard") and Erasmus-Rotterdam in the Netherlands have both reduced the length of their full-time courses in response to what they say is market demand.

Instituto de Empresa in Madrid runs a 16-month programme including four months' paid internship in a national or multinational company.

Job insecurity and the high opportunity cost obviously have much to do with the latest trend, but London is sticking to its guns. The school believes that one of the problems with a one-year MBA programme is that students are forced to start looking for a job almost from the moment they start their course. More importantly, though, it argues that two years allows time for more in-depth study, notably through more project work with companies.

Most one- and two-year programmes split into a set of compulsory core courses (*eg* finance, marketing, operations management, followed by elective courses (see Optional Courses). Most will include a mandatory in-company project.

It's a 16-month stint at the Instituto de Empresa in Madrid

G

Not quite a welcome mat

GMAT
Pronounced Gee-mat, these letters stand for the Graduate Management Admissions Test, a requirement for most business schools round the world. Some institutions (notably Harvard) have devised tests of their own, but in many cases these cover similar areas of numeracy, literacy and verbal and numerical reasoning as the GMAT.

A GMAT score, or its equivalent, is normally the starting point of any application for an MBA though a good result is not a guarantee to entry. Top schools usually demand minimum score levels of at least 550-600 (out of a maximum, though rarely achieved, 800). MIT topped a table of US schools compiled recently by the Economist Intelligence Unit with an average score of 680 per student, while Insead headed the European list with an average of 650.

Despite its attraction as an international benchmark, the GMAT is a controversial admissions tool. A growing number of schools refuse to quote their average score on the grounds that it is misleading, while some academics say that, being only available in English, it is culturally biased. Many schools allow for this when assessing non-white Americans.

Because of these and other worries, the GMAT has recently been revised. From this month, candidates will for the first time face two half-hour essay questions designed to test ability to analyse complex issues and argue a position, as well as the traditional multiple choice questions divided into several sections.

The test is given four times a year in January, March, June and October in numerous centres round the world. A registration form and the GMAT Bulletin of Information, which lists test centres and dates of tests, as well as giving sample questions, can be obtained from the Educational Testing Service, PO Box 6108, Princeton, New Jersey, 08541, US. In the UK there are a number of independent MBA and GMAT training and preparation centres.

US and other influences

GRANDES ECOLES
The *grandes ecoles*, which like so much in France can be traced back to Napoleon, are independent of the French universities, but closely associated with and partly financed by local chambers of commerce through a compulsory payroll tax on employers.

Originally set up to prepare children of wealthy industrialists and merchants for a career in the family business, they evolved after the second world war into much more professional and better focused management training institutions, influenced greatly by what was going on in the US.

Today, there are 21 *grandes ecoles* of management which turn out some 8,000 graduates a year. Students typically follow a five-year general management curriculum which starts immediately after the baccalaureat and which is subdivided into two years of *classes preparatoires* devoted to pre-business school courses, a one-year foundation course and the two-year graduate programme proper.

The qualification they receive is generally known in France as the masters in management, and is quite distinct from the MBA. However, Paris-based HEC (through its specialist arm the Institut Superieur des Affaires) and Groupe ESC Lyon are among those which also run MBA courses.

Information at a price

GUIDES AND BOOKS
Useful guides include Which MBA?, by George Bickerstaffe, a fact-packed directory of the leading MBA programmes offered by business schools and universities around the world. The sixth edition, just published, is available from the Economist Intelligence Unit, 15 Regent Street, London SW1Y 4LR, Price £21.90.

The UK's Association of MBAs (see Organisations) publishes a Guide to Business Schools, an alphabetical directory of UK and some continental and North American schools, with a commentary by Godfrey Golzen, price £16.99.

The UK's Association of Business Schools publishes a Directory which is issued free to all inquirers. EFMD publications (see Organisations) includes a new edition of its Guide To European Business Schools and Management Centres (non-EFMD members BFr3,500), a European Management Development Directory (details of over 350 executive courses from 37 European business schools, BFr6,000), and The Quality Assessment and Accreditation Systems for Management Education in Europe, a 30-page overview (BFr2,000 for non-members).

A useful source on US schools is "The Official Guide to MBA programs" (published by Warner Books).

The MBA Career Guide is a twice-yearly publication (annual subscription £18.95) which reviews over 100 leading business schools. The Guide's publishers (46 Delancey Street, Regents Park, London NW1 7RY) provides a free clearing house service for business schools' own information packs, GMAT training and scholarship advice.

Ex-White House speechwriter Peter Robinson has written an entertaining book – Snapshots from Hell – which offers impressions of his first year studying for a Stanford Business School MBA. It is published in the UK this month by Nicholas Brealey Publishing, £9.99 in paperback.

H

Positive contamination

HEALTH SERVICE MBAs
The changing state of the health service wrought by the government's health reforms has, not unsurprisingly, stimulated more interest in management development in the profession.

Health Service MBAs are taught at the university business schools of Canterbury, Durham and Nottingham with health management electives tending to form half of the MBA.

Most interest in health service MBAs is in part-time study undertaken over two years.

The two-year Northern Health Service MBA at Durham is nearly two years old, having started in January 1993. Average work experience prior to MBA study is much higher than at most business schools – approximately 15 years with the average age of candidates standing at 37.

The depth of work experience is a considerable advantage in boosting academic achievement, says Mr David Stoker, MBA director at the university.

"There is a lot of positive contamination with the students learning from each other as well as from the course."

Typically, health electives in an MBA include such subjects as Health Information Systems; Comparative Health Care Systems and Health Across Europe.

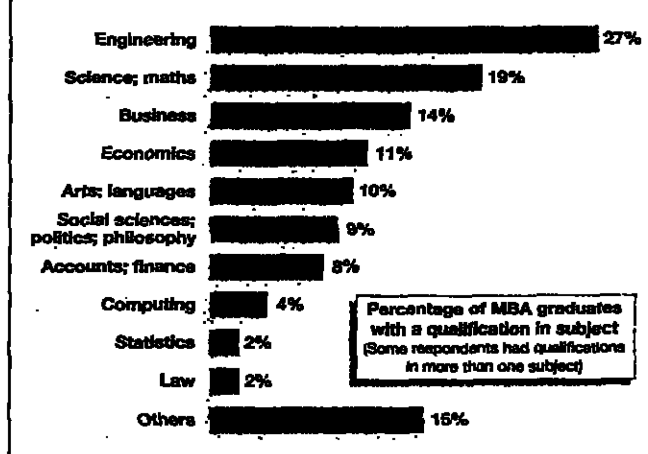
Duke University's Fuqua School of Business claims, as part of its weekend executive MBA programme, to be offering the first US programme designed specifically to meet the needs of health care industry managers.

How students finance their MBA programme

	World	North America	Europe	Rest of world
Self-financed*	80	86	77	71
If self-financed, how was the money raised?†				
Bank loan	28	33	25	18
Redundancy pay	2	1	4	1
Savings	41	36	45	53
Parental help	17	17	17	17
Spouse support	7	7	7	6

*Percentage of respondents †Importance accorded by students to each. Source. Which MBA?

Main qualification before business school (1992)



Source: Amba

BUSINESS SCHOOLS: AN A-Z GUIDE IV

I

No need for nuts and bolts

INFORMATION TECHNOLOGY

The Information Technology MBA aims to teach effective management via the use of IT and to make information systems play a role in corporate strategy. The course runs at the business schools of City University in London and Hull University.

Henley also offers the IT Hybrid Manager MBA which is built around the consortium approach and facilitates the interaction between managers from the IT function and from elsewhere in the organisation.

The abilities that it aims to teach are competence in the selection, introduction and development of information systems to a level that will make IT an effective tool of corporate strategy.

The IT MBA caters for both types of candidate – those *au fait* with the nuts and bolts of technology and those who are not. Ms Anne Leeming, director of the IT MBA at City University Business School, where IT comprises half of the course, stresses that a technical aptitude is not essential.

"It is not a technical course. It is focused on management using IT."

Therefore, the constant developments in IT do not invalidate a specialist MBA in the subject. Ms Leeming says that the course has hardly altered since it began in 1989.

The fish in the pool

INTERNATIONALISM

This is one of today's big business school buzzwords, but there is still debate about what constitutes a truly international approach. When judging whether a school is really international, attention should be paid to student mix, faculty mix, cross-border links (see Exchange Programmes) and course content.

Schools like IMD, London, Insead and Manchester typically attract a high proportion of international students and faculty. Manchester's full time class is roughly 25 per cent UK, 15 per cent other European Union, and 60 per cent rest of the world. IMD pays attention to the size of what it calls "the Anglo pool" – the proportion of students from countries where English is the mother tongue. Mr Kamran Kashani, the MBA programme director, says that the "pool" accounts for about 40 per cent of applications but that as a deliberate strategy IMD makes sure that only 25 per cent of its 83-strong class "is in that cluster".

Insead's fresh intake last month was 65 per cent western European (of which a surprisingly high 9 per cent are German), 17 per cent from the Nafta countries, and 6 per cent eastern European. The 235 students represent 33 different nationalities.

London Business School, meanwhile, has an MBA class that is 75 per cent "overseas", much the same as last year.

Many feel the key issue is the programme content, though how this is achieved varies widely from school to school. Some add specific international options, others have tried to introduce an international dimension to the whole course.

Some European schools have developed programmes whereby students can spend terms at up to three different schools and still take the same degree. The link between Cranfield and Groupe SC Lyon in France is noteworthy in this context.

J

Positions vanish

JOBS

In recent years, many newly-qualified MBAs have found it a challenge to find a suitable job.

Companies' cost-cutting and restructuring exercises have removed many of the management positions that MBA graduates aspire to. The management consultancies and financial services companies which traditionally recruited large numbers of MBAs scaled back in the downturn. Even highly qualified candidates from top business schools have suffered lengthy periods of unemployment.

Anecdotal evidence suggests that there has been some improvement in recruitment levels. As well as some pick-up in interest from financial services companies and consultancies, there are signs of increased interest from non-traditional recruiters, including the manufacturing sector.

However, finding a job requires more effort than it did in the last decade. At a time when companies are laying off large numbers of employees, some are reluctant to be seen to be actively recruiting MBA students. Although jobs are available, it has become more important to seek them through alternative routes, such as networking.

One consequence of the difficult job market is that it has blighted many MBA students' ambitions to change career. When employers are able to choose between numerous applicants, they tend to opt for experience.

But even when MBA graduates remain in the same career, they are often able to move up the managerial scale. This may be accompanied by a move to a smaller organisation. A survey of alumni conducted by Amba in 1992 found that, before their MBA, 43 per cent were employed in large organisations and 20 per cent in smaller organisations; after the MBA those proportions were reversed.

The same survey found that around 30 per cent of MBA graduates worked in consultancy and finance. Some 27 per cent of MBAs were in general management, 19 per cent in sales and marketing, 11 per cent in corporate strategy and planning and another 11 per cent in finance and control.

For those employed while studying for a MBA, 56 per cent remained with their existing employer for at least a year after graduating. Of those not employed while studying for their MBA, 40 per cent did not start a job immediately after the course's completion. On average, it took these students 5.5 months to get a job.

The real difficulty facing those contemplating a MBA, particularly a two-year MBA, is that job prospects are hard to calculate at the time they embark on the course. Anyone leaving an existing job to do a MBA is taking a gamble on the state of the job market on graduation.

Henley Management College in Henley-on-Thames, Oxfordshire, with Professor Ray Wild, its principal

An MBA with garnish

JOINT DISCIPLINE MBAs

The latest edition of Which MBA (see Guides) notes that some American schools are offering opportunities to combine an MBA with another postgraduate degree such as law. These joint degrees, it notes, "are becoming increasingly popular among both recruiters and students".

In the UK, meanwhile, there is a tendency to specialism in some schools.

City University, for example, offers five one-year full-time programmes which combine a general management "core" with one of five specialisms (finance, human resources, information technology, international business/export and marketing). Other schools have resisted this approach and argue that a particular emphasis can be achieved in the choice of electives or optional courses.

K

The hilt of success

KNIGHTS

Sir John Egan (BAA, formerly of Jaguar), Sir Christopher Hogg (Courtaulds and Reuters) and Sir Iain Vallance (BT) all got where they are with the help of an MBA. Sir Graham Day (formerly British Shipbuilders, Rover and PowerGen) and Sir John Harvey-Jones (former chairman of ICI) did not.

No business school deans are thought to have been awarded knighthoods.

L

Just talk in English

LANGUAGES

Most schools will demand some proof of fluency from non-native speakers applying for an English-based programme (which the vast majority are).

While English alone is sufficient for virtually all UK schools – London Business School which requires proficiency in another language is a notable exception – an increasing number of British schools such as Manchester and Dorset stress their language learning facilities. Some continental European schools run courses which are wholly in English, but most in, say, France and Spain require that at least some classes are also taken in the "home" tongue.

M

Benchmark setters

MANAGEMENT CHARTER INITIATIVE

The Management Charter Initiative (MCI) began in 1988, the creation of Sir Bob Reid and a number of groups including the British Institute of Management and the Confederation of British Industry.

It does not provide professional training but rather tries to foster an interest in training and relevant qualifications among managers and employers. MCI studies the level of training and qualifications prevalent among managerial levels and makes recommendations for standard setting.

Its most recent work was draft standards for senior management, after having set benchmarks for best practice for middle managers, first-line managers and supervisors. Last month these finished trials in a variety of organisations.

MCI's research among thousands of managers helps shape higher level national vocational qualifications. Standards are formed from its research and passed onto the National Council for Vocational Qualifications which sets NVQs. The role of MCI is largely opinion-forming and quality setting rather than that of dictating specific goals. Which NVQs managers take is entirely up to them and their bosses. The nuts and bolts of qualification attainment are seen as the employer's responsibility.

There is no direct link with business schools which generally tend to be more academically oriented, concentrating largely on the MBA. Mr Andrew Summers, MCI chief executive, says: "We would like to see MBAs developing to be more focused on competence as well as knowledge."

He sees the MBA as essentially a preparatory qualification after which it is important to demonstrate competence, something for which NVQs are designed. Several business schools do award NVQs and the MCI does some work with these.

MCI is non profit-making, funded by private and public sector subscriptions, which aims to develop management skills and generally improve managerial quality. It is backed by about 1,600 companies and the government and its members cut right across the sectoral board; from private through public to voluntary.

While being a national forum, the thrust of its operation is via a series of local networks which promote activities and information among employers. The networks often link with other interested parties in a region such as Training and Enterprise Councils and Chambers of Commerce.

Block release for the boss

MODULAR MBAs

This is a term which can best be translated as the management equivalent of a block release course.

Warwick Business School launched such a course in January this year which involves participants being absent from work for 13 intensive one-week "modules" which are spread over about three years.

One of the most established modular MBAs – designed especially for experienced managers – is run by Ashridge Management College in Hertfordshire.

The emphasis of the programme is on developing leadership behaviour and on helping candidates to acquire the skills that are needed to manage, across international and cultural boundaries.

Henley Management College in Oxfordshire was also early into the field.

Meanwhile, the Judge Institute of Management Studies at the University of Cambridge has introduced an innovative modular structure.

This involves extended periods of full-time study which are sandwiched between substantial work experience (for either one or two 12-month periods depending on the option chosen), where what is learnt in class can be put into practice.

Jobs of recent MBA graduates by sector (%)

	World	North America	Europe	Rest of world
Consultancy	17	17	17	13
Banking/finance	25	30	20	23
Manufacturing	19	19	22	11
Other	40	34	45	53

Source: Which MBA?

Average starting salaries of recent graduates (in $)*

North America		Europe		Rest of world	
Chicago	65,000	IMD	75,000	Macquarie	52,447
Kellogg	65,000	INSEAD	67,050	AGSM	45,454
Stanford	65,000	ISA	63,345	Melbourne	45,454
Duke	60,800	London	58,100	Otago	35,393
Columbia	60,000	ESC Lyon	55,743	Sydney	31,468
Berkeley	60,000	Aston	52,150		
Carnegie Mellon	59,732	City	52,150		
UCLA	59,200	EAP	50,675		
Georgetown	58,764	Warwick	50,612		
Darden	58,000	MBS	49,170		

*Data supplied by schools, converted using average rates for January 1994; data not available for all schools. Source: Which MBA?

BUSINESS SCHOOLS: AN A-Z GUIDE V

N

Old boys on the way up

NETWORKING
In other words, this is what you know and whom you know. Networking can be all-important for maximising the potential of a business education.

Networking means anything from genteel inquiries in a wine bar to exchanges of CVs and job opportunities via a graduate association.

By its very nature, networking is not an organised activity although more structures are growing and many organisations are springing up that are more akin to a recruitment agency than the traditional word-of-mouth image of networking.

Business schools are a useful marketplace and the largest and best-known centre for business alumni is the Association of MBAs (Amba).

Amba membership now stands at around8,000, as it has grown rapidly in the past few years.

Cranfield School of Management is another important source of networks. It is home to the Management Development Advisory Service.

Individual schools tend to be a good avenue for networking, whether they offer a definite association or not. Schools obviously have links with business and are often approached by companies for recommendations. Alumni associations, however, are also targeted by schools in their fund-raising activities.

Following the recession, networking organisations have also flourished to serve particular specialities in business and industry.

Networking is frequently used to secure work on occasional projects as well as permanent jobs. This pertains especially to technological related work.

Practice in lieu of theory

NVQs
National Vocational Qualifications are designed to test skills and competence in the workplace and operate in more than 80 per cent of occupations.

They emphasise practical skills within a job and seek a demonstration of understanding of that job's requirements rather than theoretical examinations.

Therefore, it is difficult to equate them directly with traditional academic standards. But very roughly an NVQ level 1 is approximately similar to 4 GCSEs, grade D to G; NVQ 2 ranks alongside 5 GCSEs, grade A to C and NVQ 3 can be compared with 2 A levels. NVQs level 4 and 5 are harder to gauge as they are geared towards management competence and require demonstration of a fair amount of personal autonomy. They can be approximated with education achieved at higher levels, not necessarily degree standards but beyond A level.

Much of the standards set for NVQs level 4 and 5 come from management standards laid down by the Management Charter Initiative.

The quality of NVQs, which are tested in the workplace and operate on a fairly flexible basis with requirements varying among different occupations, is monitored by the National Council for Vocational Qualifications. The council, which is responsible to the government, approves and accredits the qualification.

Accreditation lasts for five years, after which it must be renewed.

NVQs, particularly the lower levels, have been subject to some criticism with the suspicion in academic and industrial circles that they cannot be a substitute for traditional methods of testing knowledge.

The advantages and disadvantages of NVQs versus a more traditional qualification such as the MBA boil down to relevance. Managers may want more practical expertise in addition to straightforward academic knowledge or in some circumstances they may need people-based abilities and utilitarian aptitude in preference to theoretical achievement.

O

Amba and acronyms

ORGANISATIONS
The Association of MBAs (15 Duncan Terrace, London N1 8BZ, Tel: 071-837-3375). Founded in 1967 by a group of British graduates recently returned from leading US business schools, Amba's original aims were to promote management education in the UK and to develop an information and social network for business school alumni.

Today Amba also performs a quality controlling role for UK and continental institutions (see Accreditation), runs an annual reception for business schools and potential recruits, and publishes a Guide to Business Schools (see Guides).

The Association of Business Schools (344-354 Gray's Inn Road, London WC1X 8BP, tel: 071-837-1899). With 100 business school members, the ABS is in effect the trade association for the UK management education industry. Its aims include promotion and government lobbying, but its most visible contribution is a Directory of members and the courses they offer (see Guides).

The European Foundation for Management Development (40 Rue Washington, B-1050, Brussels, tel: 322 648-0385). EFMD – a European forum for information, research and best practice in management development – has in the past discussed the idea of common European standards for accreditation. The consensus now is that Europe is not a single model and that national norms and mutual recognition are the way ahead.

The London Business School in Sussex Gardens, Regents Park *Alan Harper*

P

How most people do it

PART-TIME MBAs
Most business schools run part-time MBA courses; indeed most MBA degrees in the US, the UK (Europe's largest market) and Asia are now awarded to part-time students. Part-time MBAs fall into a number of sub-categories, some of which (Executive MBAs, Distance Learning and Modular MBAs) are discussed elsewhere.

The most common part-time MBA courses – from City University in London to Esade in Barcelona – are taught after working hours a couple of evenings per week and/or at weekends, with occasional residential periods thrown in for more in-depth study. "Students" on part-time programmes are often older and more experienced than their full-time counterparts. Many managers, though, find it hard to set aside time to study at the same time as holding down a challenging job – hence the appeal of the modular approach.

A hands-on alternative

PROJECT APPROACH
In their third term, MBA students often become mini-consultants, dealing with a company's marketing challenges, expansion opportunities, management dilemmas. Alternatively, part-time students may undertake a specific task for their company which will be appraised as part of their MBA.

This is the project approach which forms the practical application of MBAs at almost all business schools. The project approach, which deals with real situations, has prospered in UK business schools.

It contrasts with the case study approach, championed especially by Harvard business school. Case study methods tend to require a response to theoretical situations; project approaches are the hands-on alternative.

Both are meant to test the student's ability to synthesise the various aspects of the course. They will need to exercise ability in most of the core subjects covered; determine the relevance of each one in the given situation and act accordingly.

Business schools often invite smaller companies to take up consultancy services from students undertaking their third term project. For the company it can prove a very cost-effective method of receiving such services from people who are not that far from going into such roles on a permanent basis.

Cranfield School of Management is unusual in not making the project an obligatory part of the MBA. A full-term project can be undertaken but the school finds that students prefer to take more electives. Cranfield is the only business school to offer an academic year of four teaching terms and according to Mr Colin Gordon, director of the full-time MBA, students are drawn to the centre because they can maximise their theoretical learning.

"Many have a number of years' experience in work and feel that they benefit more from the various electives. They do some project work that lasts three to four weeks and often feel that this is enough." The proportion of students who do choose to take the full-term project option is very small.

To manage the state

PUBLIC SECTOR MBAs
Aston, Henley, Birmingham and Exeter in the UK offer MBA programmes in public sector management.

Several others (*eg* Bradford, South Bank and Strathclyde) lay on specialist modules in this area. Cranfield runs a course for the Ministry of Defence which combines the general core of its full-time MBA with a number of specialist electives.

Q

Emphasis on experience

QUALIFICATIONS
The qualifications required for MBA students have changed over the past few years. More emphasis is placed on experience of work than was the case a few years ago when it was a reasonable rule of thumb among business schools that an MBA was usually bolted straight on to a first degree.

The average age for candidates beginning a full-time MBA is 28; for those on a part-time course it is 30-32 and for those distance learning it is considerably more.

Qualification requirements tend to be a first degree and about three years' experience in work. In exceptional cases candidates with work experience but no degree are accepted by business schools although they only make up about 2-3 per cent of MBA candidates.

And Mr Roger McCormick, director-general of the Association of MBAs, issues a general note of caution against business schools willing to accept candidates without work experience. "In spite of their ability, those without relevant experience will probably find that their peers are critical of them," he says.

A GMAT is not a necessity for all business schools. If a candidate does elect to take the GMAT in preparation for an MBA then it is worth remembering that a business school will expect a good result, or a good reason why a high figure has not been attained.

The MBA is a multidisciplinary generalist degree that should not require specialist knowledge to study for. However, in practice the modern MBA programme is heavily quantitative; anyone with limited skills in mathematics will struggle.

As for the value of an MBA once that qualification is obtained, Mr McCormick believes it is a solid foundation which will facilitate advances later. "An MBA is generalist which has its use in the long term. It is not intended to provide an immediate springboard but to prepare someone for a role in senior management later on."

MBAs are not graded. A candidate achieves a pass or a fail; there are no classes as with a first degree.

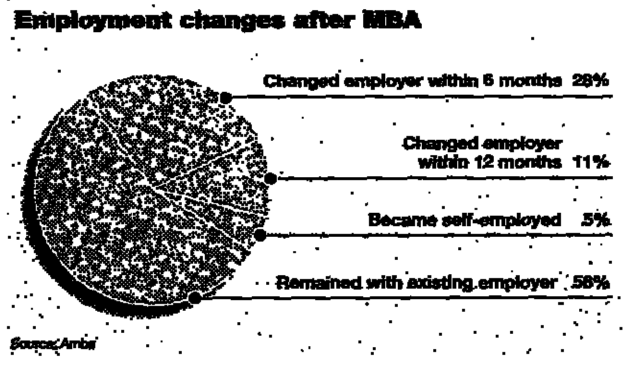
It is difficult to rank MBAs and Mr McCormick flinches at the thought, although of course business schools have varying reputations and that may have a bearing on employers' considerations.

Specialist MBAs are just that, an industry or sector-tailored qualification. They are not considered of greater value than a traditional MBA. In fact, Mr McCormick warns of the danger of MBAs which are too hybrid, as opposed to a core MBA with speciality components tacked on.

"There is a bit of a trend to tart up specialist MSc as MBAs," he says.

This 6-page guide was written by Tim Dickson, Christine Buckley, Vanessa Houlder and John Authers. Design: Robin Coles. Editorial production: Gabriel Bowman

Employment changes after MBA



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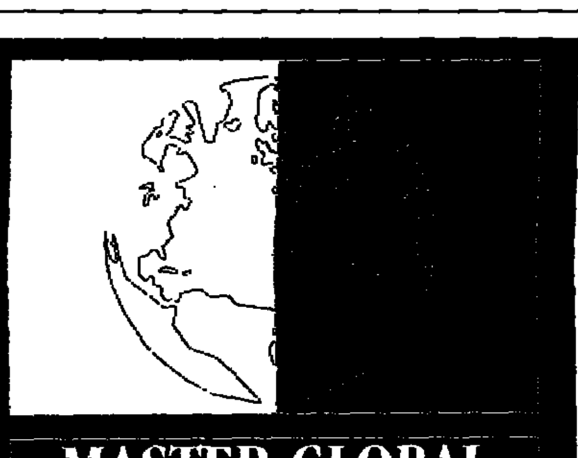
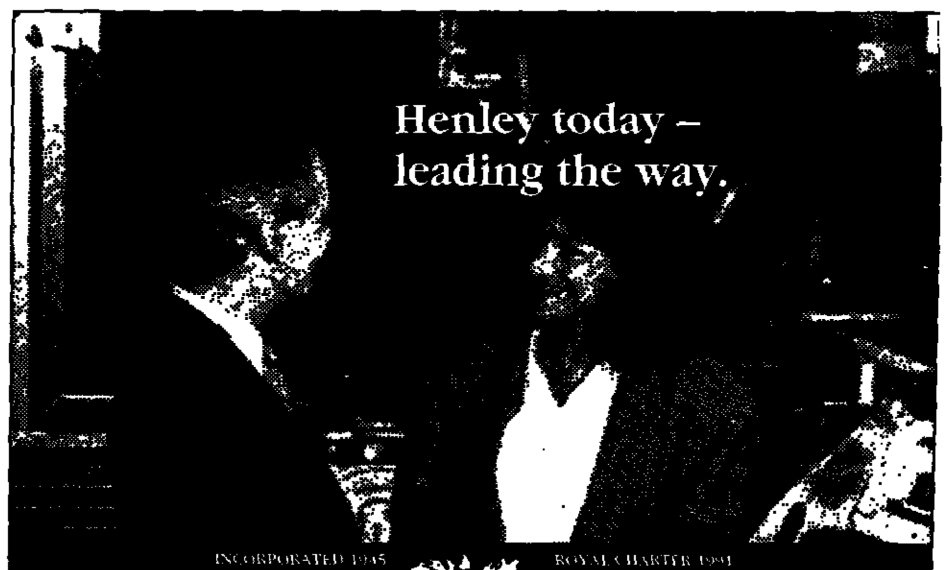
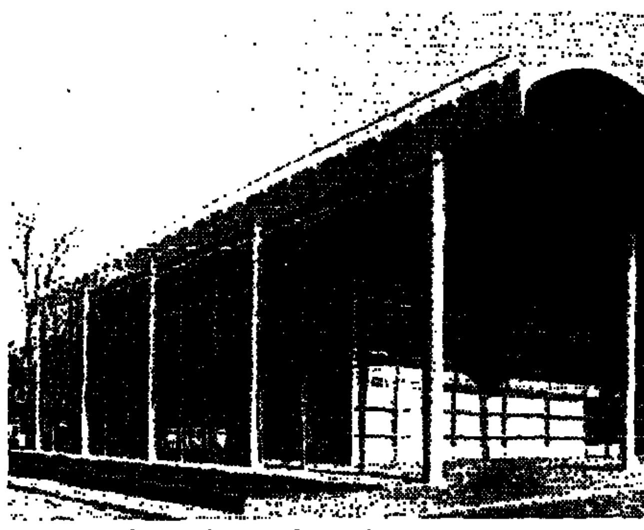




BUSINESS SCHOOLS: AN A-Z GUIDE VI



The library at Cranfield Institute of Technology

R

OK for those at the top

RANKINGS
Published rankings have been common in the US for some years – the Business Week survey is the most widely quoted and probably the most reputable – but European business schools have traditionally shied away from league tables. That said, there is a strong view that proper rankings would make a contribution to a more efficient and well-informed market place if the right methodology could be found.

Most of the attempts so far are superficial, either because they concentrate only on one aspect of a business school portfolio (*eg* research reputation, MBAs, executive programmes) or because the method of assessment is flawed. Even schools which publicly "knock" the idea of rankings will use them in their promotional material if they are shown in a good light.

S

Rewards diminish

SALARIES
The years when MBAs could be sure of a large rise in salary as a result of gaining their qualification have gone. The premium attracted by the qualification has declined, perhaps reflecting both recession and a changing balance in the supply and demand of MBAs. Some students have even experienced unemployment and pay cuts as a result of taking the MBA.

One of the difficulties facing MBA graduates is that management consulting and the financial services industry, which was traditionally considered a route to a top salary, cut back sharply on recruitment in recent years. Many graduates have turned to small and medium-sized companies, where salaries are generally lower than those than in large organisations.

The financial case for the qualification has lessened over the past decade. In the first half of the 1980s, students could expect an average increase in salary of 40 per cent as a result of taking a MBA, according to an Amba survey. By 1991, the figure had fallen to 16.5 per cent.

A later survey, in June 1992, showed that 30 per cent of MBAs earned between £30,000 and £40,000 a year. Seven per cent reported salaries of less than £20,000 and, at the other end of the scale, 8 per cent had salaries over £70,000 and 3 per cent earned more than £100,000. The majority of MBAs were eligible for pension, a company car, private medical insurance and a performance-related bonus.

Apply early if in need

SCHOLARSHIPS
BURSARIES
SPONSORSHIP
A limited number of scholarships and bursaries is offered by business schools. These are usually targeted at people with special merit or need. It is important to apply early for awards, which are often listed in the school's brochure.

Some students are sponsored by their employers to do a MBA. But it may be difficult to persuade an employee to pay the fees for a full-time course, not least because most students contemplate a career change at the end of the course. Sponsorship is generally limited to part-time, distance learning and company programmes in which the student remains in employment.

A comprehensive list of grants, scholarships and awards is available in the Grants Register, published by Macmillan Publishers of Basingstoke, which is available in most large libraries.

Institutions which offer relevant scholarships include the Association of Commonwealth Universities, the London Chamber of Commerce & Industry, Rotary International, Royal Academy of Engineering, the American Association of University Women, British University North America Club and the English Speaking Union of the Commonwealth.

Some awards are specifically directed towards minorities or women. Thus, Cosmopolitan magazine offers a bursary for studying at Insead.

Further information from the Fulbright Commission, Doughty Street, London WC1.

Cosmopolitan picnics

SOCIAL LIFE
Pressure of work can militate against an active social life for MBA students; indeed for all but the most gifted it may be a contradiction in terms. However, student clubs, student government and community activities are all possible outlets for surplus energy and provide an opportunity to test newly acquired leadership and negotiation skills.

Most schools will help organise sports, such as tennis, while parties with a country theme are a favourite of classes with a wide international student spread.

T

Courses may qualify

TAX RELIEF
The principle of tax relief for MBA courses appears to have been conceded in the UK – but its application still remains unclear. The concession – extending relief for individuals paying their own vocational training bills to graduate and postgraduate courses consistent with level five of the National Vocational Qualifications system – became effective in April.

The issue is obviously an important one for business schools at a time of flagging demand for full-time MBA courses. It was also highlighted by an All-Party House of Commons Trade and Industry Committee report which expressed the view that it was "unfair and damaging that individuals paying for training are treated less favourably for tax purposes than companies doing so".

An Inland Revenue spokesman told the FT earlier this month: "It is up to the training organisation to say whether it (the MBA) could lead to an NVQ." Asked whether claiming relief was worth a try, he replied: "Yes".

U

Influx to act as stimulus

UNDERGRADUATE COURSES
There is more to business schools than MBA courses.

Government statistics show that business studies is the fastest-growing undergraduate degree course. Youngsters, many with vocational business qualifications, are keen to take courses in management and business rather than economics, where numbers are dropping.

Courses at undergraduate level are still far less popular than MBAs. Last year business studies accounted for 17 per cent of all higher degrees awarded at "old" universities – excluding those upgraded from polytechnics in the last two years – but only 4 per cent of first degrees, according to the Universities Statistical Record.

But the number of business studies undergraduates rose by 9.9 per cent last year, to 17,200, while most "new" universities are offering business degrees, often in combination with other subjects.

Universities hope that the influx of undergraduates will act as a stimulus to improve the teaching of business. However, a business studies degree is unlikely ever to be regarded as a stepping stone for an MBA. Instead, business degrees, particularly from new universities, are intended to provide well-qualified middle managers.

Business schools are also diversifying into providing shorter courses for middle managers later in their careers, often helped by government funding for training. For example, Warwick University's Centre for Small and Medium Sized Enterprises operates the "Host Initiative". This takes redundant senior executives from large companies in the area, such as Rolls-Royce and Rover, gives them a training course for a few months to update them on management theory, and then sends them to placements with small companies.

The scheme recently found permanent employment for its 100th executive. This benefits the local economy as smaller companies attempt to fill the gap left by the contracting car builders, and the government will encourage similar schemes elsewhere.

V

Entrepreneurs in the making

VENTURE CAPITAL
A type of finance which has been of keen interest to MBAs and other business school graduates (though latterly the recession may have dented their enthusiasm). Surveys show that more than 90 per cent of MBA applicants cite career change as a motivation for going to business school and that 5 per cent end up being self-employed after their studies.

Entrepreneurship has been a notably popular optional course (or elective) in recent years.

W

Childbearing disadvantage

WOMEN
Many business schools are concerned about the low percentage of women they attract, which is generally less than 25 per cent.

There are some exceptions. The schools which recruit the highest percentage of women students are Ashridge at 50 per cent, Monaco at 47 per cent and Toronto at 46 per cent, according to the Which MBA? guide.

Before 1976, women were virtually unrepresented among MBA graduates, according to Amba. Over the next 13 years, the proportion of women taking MBAs grew steadily until it reached about 20 per cent; since 1989, it has plateaued.

Explanations for the low proportion of women vary. Some schools believe it is in line, or even above, the number of women expecting to reach senior management positions. "While women still represent a minority of MBAs, the proportion is relatively large compared with the overall management positions occupied by women," says Amba.

The graduate enterprise programme workshop at Durham University business school

Another explanation is that women in their late 20s – a common age to take a MBA – are often considering a break in their career to start a family. Some schools are trying to promote the idea that women who take career breaks to bring up a family might find an MBA a way back into the job market.

Forty per cent of women managers who responded to a survey conducted by City University Business School felt that schools could do more to promote the benefits of an MBA to employers.

The authors agreed that schools need to reassure women that an MBA adds value to their careers, and that the difficulties of attendance facing many women at the traditional age of 29-32 should be acknowledged. "Promoting an MBA as something a woman may consider during a career break or moving towards a modular system whereby an MBA can be taken over a longer period are strong options for the future", they concluded.

X

Titles of no degree

X-RATED
BUSINESS SCHOOLS
Students or prospective students should be very wary of institutions offering MBAs in the UK which are not validated by a university.

Regular MBA employers have a good idea which programmes are respectable – they will certainly shun the "degree mills" around the world which award MBAs on payment of fees but which require limited, if any, academic input from the candidate.

Although an American business school may well be accredited at home by the American Assembly of Collegiate Schools of Business, approval by that body of its affiliates outside the US does not necessarily follow.

In France, intending applicants could check for membership of the Chapitre des Grandes Ecoles though Insead, one of the best-known international schools, is outside the university system.

On the whole, the more stringent and demanding the entry requirements of a business school, the higher up the quality ladder a programme is likely to be.

Y

Passport may be invalid

YUPPIE DEGREE
In the second half of the 1980s the MBA attracted the nickname (mainly in the US) of "yuppie degree". For many, it seemed an automatic passport to red braces, high salaries and fast cars. That image, however, has had to be revised in an era of more sober expectation, greater management complexity and softer leadership styles.

Z

For designer mugs

ZARF
According to Collins' English dictionary the Zarf is a Middle Eastern holder, usually ornamental, for a hot coffee cup. It is an essential piece of "kit" for the ambitious MBA student.

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A Review By UniForum UK

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IBM's industry leadership is founded on innovation and creativity. Today it combines those enduring attributes with a renewed flexibility and responsiveness.

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·comtec·
COMPUTER TRAINING

Comtec is one of the UK's largest independent computer training organisations. Courses for end-users and IT professionals are provided in the Unix, Windows, MS-DOS and Networking environments at centres in London (W1 and shortly the City), Birmingham and Leeds as well as on-site. Open Systems computing requires intelligent, practical and reliable training support. As a Trading Member of UniForum UK, Comtec is firmly behind the Code of Practice (which includes the Training Procurement Guidelines) designed to help buyers and sellers implement enterprise-wide computing successfully. As well as Comtec HQ recently gaining BS5750 registration, the majority of the 200 courses in the Comtec 'User' and 'Professional' Software Training Planners are accredited by leading software houses. Overall, after 12 years, it is the high-quality independent standards and solid trackrecord of the Company which makes it such an excellent choice for training on multi-vendor installations. Over 50% of Comtec projects are now carried out as tailored training programmes of this sort.

More information on:
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0113 234 1234 (Leeds)

JBA

JBA, one of Europe's leading mid-range software and development tools suppliers, is developing an Open Systems product set called System 21. JBA's commitment to Open Systems reflects the wishes of its customers, many of whom want to run JBA's Business 400 on Mixed UNIX platforms as well as on the IBM AS/400.

To achieve this migration, JBA has developed a graphical client/server development tool called Guidelines. Now commercially available, Guidelines generates C + + code, and can be used to develop platform independent applications which combine the power of the server with the graphical capabilities of the PC.

Guidelines also provides a planned and flexible development path towards achieving the benefits of truly object oriented programming, namely speed of application environment, software re-usability and ultimately, vendor independent, enterprise wide cross-platform applications.

JBA has over 3000 customers and 1200 employees around the world, achieving turnover of £75 million in 1993. JBA achieved a listing on the London Stock Exchange in the early summer of 1994.

JBA can be contacted on: +44 (0)1789 400212

TADPOLE

TADPOLE TECHNOLOGY

Tadpole Technology is the leading supplier of portable workstation-class computers to Original Equipment manufacturers (OEM's) and end-users. In addition Tadpole has strong engineering based links with major IT companies for system and board level products and specialises in producing customised board and system products for volume applications. Tadpole's objective is to maintain and build on its leadership position by continuing to bring market high end portable computer products based on the major microprocessor architectures. SPARCbook3 has set a new industry standard for portable workstation performance, portability (weighing less than 3 kg) and design excellence. SPARCbook3 is available with PCMCIA slots, removable disk drives and full networking and communications capabilities including Ethernet.

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For further information call:
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PERITAS

PERITAS

Peritas shows off Open Systems training portfolio at Enterprise IS - stand 298

Peritas, the UK's largest technology training company, will be promoting its full portfolio of both classroom and technology-based Open Systems and client-server training courses on stand 298 at Enterprise IS (18-20 October, Earls Court 2, London). Peritas will be emphasising the vital role its on-site tailored training courses can play in filling the skills gap created by the upsurge of organisations implementing enterprise-wide IT strategies. To date, over 20,000 customers have benefited from Peritas' Unix training.

Each year, Peritas runs over 1000 scheduled Unix courses which include: management, support and development requirements in generic Unix, Unix SVR4.2, AIX, Solaris, and SCO Unix environments.Its client-server range of courses include portfolios on relational databases and networking, as well as object-oriented analysis, methodology and programming techniques.

To discuss your open systems training needs, visit Peritas on stand 298. Alternatively, you can contact Peritas on:

0753-851483.

UNIFORUM UK

UniForum UK

Established in 1983, UniForum UK is the independent, non-profit making forum for open systems professionals whose prime function is to assist British business and government with the adoption of international standards in computing and communications systems (Open Systems). With over 1,200 voting members in the UK and affiliations with comparable organisations in over 20 countries, UniForum UK achieves its objectives by providing unbiased information, publishing Open Forum magazine monthly (with a circulation of 10,200), an annual User Casebook (a compilation of application case studies) and the Guide & Directory now in its fourth edition. In addition, the organisation publishes a Code Of Practice And Trading Standards, organises Seminars and Events, sponsors the Blenheim Online exhibition, ENTERPRISE IS (Earls Court 2, London, 18-20 October 1994), negotiates on behalf of its members discounts on publications and events and represents the organisation's interests in international affairs. If you feel that you or your organisation, would benefit from membership of UniForum UK call 081 332 0455 or fax 081 332 0448 for an information pack, or visit the UniForum UK stand 230, at Enterprise IS next week.

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INPHASE Software has recently launched release features in the INPHASE/EIS V2.2r1 Toolset which comprises a second generation object-oriented 4GL, time-series executive database, code-generating visual programming kits and extensive object libraries. The INPHASE/EIS Toolkit is available for Windows 3.x, Windows for Workgroups, Windows NT and UNIX.

For further information, call (+44) 0344-873311

SIEMENS NIXDORF

SIEMENS NIXDORF

Siemens Nixdorf, the information technology arm of the innovative Siemens Group is Europe's leading IT company. In the UK, Siemens Nixdorf is based in Bracknell and has 1,000 employees including a 500-strong service organisation. The company markets an extensive range of hardware and software, and provides systems integration, project management and support services to users in every key sector of the British economy.

In the medium scale UNIX market, IDC identify Siemens Nixdorf as the European leader with a 30% share in 1993. The RM family of UNIX servers uses MIPS processors to deliver industry leading levels of price/performance. It scales from the desktop RM200 through the single processor RM400 to the 24 processor RM600 which supports high availability and clustering for datacentre environments. This powerful hardware range is complemented by a rich set of applications and system software including all major Unix databases.

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A leader in the development of Open Systems, ICL is an information technology company specialising in systems integration in selecte markets. Operating in over 80 countries worldwide, ICL generated revenues of about $4 billion in 1993.

ICL's principal activities are now grouped under three businesses.

• INDUSTRY SYSTEMS businesses specialise in systems integration in retail, financial services, public administration, travel and transport, manufacturing, utilities and healthcare markets.

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Call ICL on:
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PROFITING FROM OPEN SYSTEMS

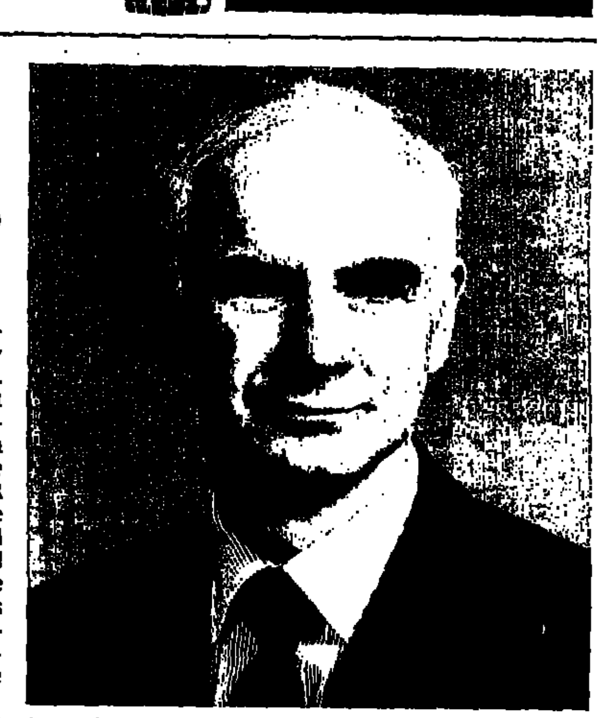
UniForum UK

A Review By UniForum UK
17th October 1994

UniForum UK

INSIDE

Good progress, but must try harder



Howard Davies,
Director General of the Confederation of British Industry

The way we do business is changing. More and more organisations, in both the public and private sectors, are shrinking their operations to a set of core activities and subcontracting an increased range of supporting services. This approach is being adopted because it allows more flexibility when business conditions are changing rapidly, but it depends on first class co-operation and networking between customers and suppliers for its success.

The new structure is based on the exchange of increasing volumes of information for design, purchasing, marketing, manufacturing, invoicing, etc., between organisations which are autonomous and equipped with a disparate range of information technology (IT) systems.

Information comes from a variety of sources and may be created, processed, displayed and stored by numerous departments and individuals within and between companies. We should not forget, however, that many of the companies are small and have neither the time or resources to devote to gaining a detailed understanding of the interconnection between component parts of their IT systems, or between their own and those of suppliers and customers. They have to depend on the integrity and expertise of the systems suppliers for what have, or will soon, become key parts of their business operations. Conformance to an 'open systems' concept in which interoperability is guaranteed should give users confidence that their IT systems will communicate consistently within their organisation as well as with those of their customers and suppliers, without losing or corrupting the information exchanged. But is practice being matched by the theory? How are the suppliers of IT systems and networking products meeting the needs of their customers in this respect?

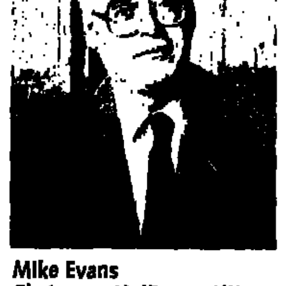
The fundamental goal of 'open systems' is the provision of a set of IT products from different suppliers which can be interconnected and interoperate without the need for specially designed interfaces, with all the complexity and cost which that implies. Currently, this ideal is not achievable and even the purchase of components which separately conform to the standards that exist does not mean that integrated, trouble free, systems can be installed and operated simply and effectively. At the same time the data communications links within and between companies must also be 'open' otherwise information exchange will not be possible.

The basis for open systems must be internationally agreed standards, but there are standards and standards. On the one hand there is the formal standards-making infrastructure comprising national institutions which collaborate to draft international standards - usually a very protracted and bureaucratic process based on achieving consensus. On the other, 'de facto' standards have arisen because particular proprietary specifications have dominated the market or groupings of suppliers have combined to create them.

With information technology developing at the pace it is, the formal process is too slow to be economically viable for users and suppliers alike, while the 'de facto' approach locks users into particular suppliers, or groups of suppliers.

The CBI through its work with DISC, the IT standards arm of the British Standards Institution, seeks to encourage the combination of innovations created by industry led groups with the discipline of traditional standards-makers to develop timely standards which meet the needs of the market. But this concept needs to be accepted internationally because IT markets are international markets. Currently, 'Open Systems' are a bit like the curate's egg; proper development of the 'information society' will depend on our ability to deliver a much better 'mix and match' capability in the future.

IT Industry has to practice 'Co-opetition'



Mike Evans
Chairman, UniForum UK
and MD of GUPTA UK

Throughout its relatively brief history, the computer industry has always been obsessed by differentiation. The binary arithmetic, zero and one, presence and absence, which underlies not only computer technology but also the digital representation of sound, image and telephone transmission is fortunately common but it sometimes seems that everything else differs from manufacturer to manufacturer. It is only in the last twenty years that there has been any standardisation of the number of binary digits used within the machine to represent such basic things as numbers and letters of the alphabet - prior to that, the leading UK computer manufacturer and the leading American one (along with most other suppliers) used completely different internal representation.

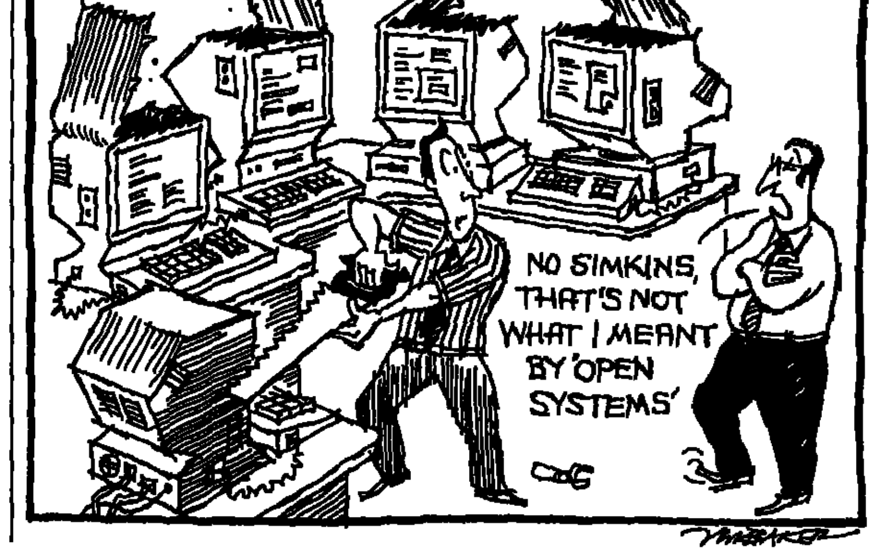
The industry has always been dominated by powerful players with Univac, IBM and most recently Microsoft emerging as market leaders successively over the past forty or so years. Each has had highly proprietary architectures, operating systems and database management systems, and it has been largely the task of their competitors to demonstrate feature superiority over the current market leader.

This has had two effects - an obsession with the technical features of computer systems, as opposed to business advantages and benefits, and a failure to achieve the common standards which would facilitate progress towards commoditisation.

Almost all other industries, most of which have not enjoyed the phenomenon of a single dominant market leader for long stretches of time, have achieved greater commonality of total product more quickly. The obvious analogy is the motor industry, which in its heyday of the 1920s and 30s produced a rich variety of technology differentiation ranging from hydraulic versus mechanical brakes, significantly different suspension and steering systems, and a variety of different types of carburation, among many other things. This was fine for the rich, but affordable motoring only became a commercial reality when standardisation, in the form of common of manufacturing components, enabled costs to be driven down and co-operation between manufacturers to be driven up. The motor industry today represents the very best example of hybrid vigour with cross manufacturing deals for engines, body panels and components producing highly affordable and customer acceptable cars. Marque and indeed marketing, are fundamental to the differentiation process but driver feel, safety, fuel economy, service quality and cachet are far more important than the precise features and provenance of the components which make up the whole.

The computer industry is

...Continued on p.2



Two new product lines confirm Specialix as fastest growing company in sector

Specialix International, *Europe's largest I/O systems* manufacturer, is the fastest growing company in its market and will be confirming its position with the launch of two new product lines this autumn.

The new products are designed to meet demand in new and developing markets where there is little or no competition. First to be launched is Specialix MultiGrafix, a high power multi-user graphics package that will, for the first time, bring Windows and other colour graphical interfaces to the Unix market. There is also a multi-user version for the NT Server market that *incorporates Prologue's new* WINTimes software.

The second line of new *products, the IHC 5000* and ITA 1000, are directed at the emerging ISDN market. The modular units can be combined either to make a fully featured ISDN link between LAN servers and workstations, or to provide high speed links between two Novell servers over ISDN. The package will also convert any serial I/O port to the ISDN standard.

Since its formation in 1986, the company's market share has grown more than any single competitor. Specialix is number one in Asia as well as Europe and number two in the world. The Specialix product range now *encompasses intelligent I/O* controllers, ISDN and network terminal servers, high *power multi-user* graphics systems and network printer servers. The fast progression from start up in 1986 to its current strong position is based on the company's commanding competitive advantage which in turn is gained from its innovative approach to solving connectivity problems.

Product Strengths

Specialix SI was the crucial development which first differentiated Specialix from its competitors. The launch of SI brought the introduction of modular products that allow users to upgrade their installations without discarding their existing equipment. *Launched in 1988, SI still has* the largest installed base in the I/O controller market.

More recent innovations have included the advanced intelligent I/O controller system, Specialix RIO. RIO is undoubtedly the leading technology in this market, uniquely employing transputer technology to create a solution with data transfer rates more than five times faster than that of the competition. The recent introduction of long distance capability over *thousands of miles*, has further elevated this product's leading position in its market.

Market Share

The world-wide market for connectivity products has increasingly become divided *between the two dominant* suppliers: DigiBoard of the US and Specialix. Since its formation, Specialix has continued to outperform the market, taking market share from all competitors. With such a record of growth and innovation, the company has a robust view of the future. Specialix say that they will maintain progress by constantly developing existing product ranges to stay ahead of the competition and by repeating past success with entirely new products for the company's core business - connectivity solutions for the server market.

Market Share 1992 - 1993

	Europe		World-wide	
	1992	1993	1992	1993
Specialix Int	29.67%	31.65%	10.3%	11.3%
Chase Research	16.58%	18.47%	4.79%	5.5%
DigiBoard Int	18.00%	17.09%	33.59%	35.3%
Computone	10.3%	6.2%	10.3%	8.6%
Stallion	4.83%	8.59%	5.18%	5.9%
Equinox	6.76%	5.36%	11.86%	9.5%
Others	13.86%	12.64%	23.98%	23.9%

Source: Regent Associates

...Continued from p.1

'Co-opetition' is the key

just now moving to this level of sophistication. Significantly, the latest advertisements from Hewlett Packard, which is by common consent the most open of computer suppliers, stress this theme: 'We don't care if your system *is made up of HP, IBM*, Microsoft, Novell or whatever. We'll make it work'.

By transforming itself from merely computers to information technology the industry has positioned itself within the wider world of telecommunications, electronic publishing, education and entertainment which form the main components of the Information Superhighway. All of these *other industries understand* and practice the 1990s phenomenon of 'co-opetition', or co-operating with one's competitors, and the computer industry has had no choice but to follow suit.

The roots for this revised business approach go back over ten years to the foundation of the Open Systems movement. Robb Wilmot, who was at the time Chief *Executive of ICL PLC*, rallied a number of primarily hardware suppliers who wished to break the stranglehold of *IBM's proprietary grip* on the industry with the war cry: "Dare to be the same". It became a clarion call for vendor-neutral operating environments and, in particular, the Unix operating system, which until then had been seen as being primarily of academic significance.

X/Open was established to shift the emphasis on standards from academic to prac*tical conformance and*, in particular, to emphasise the importance of portability, or the ability to move applications from one machine to another in order to avoid manufacturer lock in. Ten years on, X/Open has achieved its fundamental objective, ownership of the Unix brand. Unix has moved through a succession of ownerships, from AT&T (where it began) to Unix System Laboratories and, most recently Novell, *with a large number of skir*mishes and occasional full scale wars along the way. Now, hopefully, with the publication of just over a thousand standard interface specifications, it will be possible to define and develop an industry standard Unix, with subsequent reductions in porting costs for software and applications providers. Turning back to our car analogy, it is *just possible that the battle* between imperial and metric screw threads is finally over.

UniForum UK is trying to go one stage further in the encouragement of standardisation and harmony. As it happens, UniForum UK is also ten years old. It is a not-for-profit organisation which consists of a representative board of suppliers and users and has approximately 1,200 members. *During the past year its* three main thrusts have been affiliation with other standards bodies, an education programme, and the development of Trading Standards for the benefit of both suppliers and purchasers. UniForum UK is already affiliated to a world-wide network of UniForum organisations, and has in the past year aligned itself much more closely with X/Open, the *DTI*, the Computing Services Association and most recently the National Computing Centre.

Education takes the form of information through a monthly magazine, Open Forum, seminars for consultants and the sponsorship of a brand new exhibition and conference, Enterprise IS, which is being organised by Blenheim Online at Earls Court 2 from 18th to 20th October. This is designed *specifically* to show businessmen what is practically available with modern information technology to *make companies more com*petitive in the marketplace.

The third area, the establishment of Trading Standards for suppliers and purchasers of IT, is the most ambitious project of all. It has been achieved with the invaluable help of the government's CCTA division of the Treasury, a number of commercial hardware and software suppliers and some key *users, who have attempted to* define a 'balance of fairness' between vendor and purchaser in areas such as a code of practice, memoranda of understanding, compliance and complaints procedures and specimen terms and conditions.

This process, the balance of fairness between vendors and purchasers of IT, is an ongoing one. It is the broader com*mercial environment in which* technical standards and conformance to specification operate and only if purchasers and vendors are aware of what IT systems can and cannot be expected to deliver will it be possible for systems to be purchased and implemented safely and effectively. Ignorance of customer requirements and system capabilities, coupled with lowest price purchase *without regard to system suit*ability, are primary causes of the computer horror stories which are still all too commonly happening.

Performance Measurement - The Benefits of an Open Approach

By Robert Hobbs,
Managing Director,
INPHASE Software Limited

A vital management process today is to empower every employee to bring their *skills, talents and efforts to* bear on the issues that critically affect the success of the organisation.

To achieve this re-engineering, a growing number of major organisations, such as National Westminster Bank, Barclays de Zoete Wedd, British Telecom, the Department for National Savings, and Welsh Water, use performance or objective *management EIS from* INPHASE Software Limited.

Empowerment means giving every employee the information needed to make decisions, as well as the responsibility to implement them, making EIS Everyone's Information System, rather than just an executive information system.

In this new world it is vital to ensure that all individuals *are aligned with the organisa*tion's direction. Key performance measures need to cascade down from the corporate vision at the highest level to cover each key process and each individual's efforts.

A range of critical business factors must be defined. Often these are derived from the organisation's mission and vision statements. These critical factors must cover a broad range of *measures, which is* sometimes referred to as the Balanced Business Scorecard. These measures cover the perspectives of the four key groups within the organisation; shareholders, customers, employees and managers. Inevitably, the range of performance measures will be diverse. They will include the obvious financial measures, such as revenue, profit, return on investment, and capital value, but also non-financial *measures like customer satis*faction, product quality and service quality, staff competencies, training and retention rates.

The breadth and volume of data required to produce the end measures can become gargantuan. The benefits of using an EIS immediately become abundantly clear.

An INPHASE EIS offers intuitive access to high quality graphical and tabular presentation of all of the measures. The functionality, data access rights and sophistica*tion or simplicity* of the user interface can be configured appropriately for each user's specific needs. The presentation of the information can be whatever is most useful, from maps and trend graphs to text reports or even video clips.

Automatic multi-level exception alerting which INPHASE has christened "below-the-horizon" alerting, and assisted navigation to *help identify the causes of* poor performance by suggesting "causal links" within the available data, help reduce the screen overload which users otherwise face. One of the stumbling blocks that have dogged the successful implementation of this technology is the rate of change that is needed in the EIS to accommodate changes in the key issues of the organisation and *the objectives that it must* meet. Fast development and low maintenance are provided by employing object-oriented 4GL and visual development tools within the INPHASE/EIS development, enabling the EIS application itself to function in a permanent evolutionary stage. But even this is only half of the story.

The other fundamental requirement for success is availability of the data *required for the performance* measures to be calculated, and subsequently 'drilled down' into for further analysis. With a requirement for access to virtually any and every computer application for provision of data into an EIS, speed and ease of coping with different data sources and changes in those data sources can contribute substantially to reducing the cost of imple*menting long term successful* EIS.

Standards, whether industry de facto, like Microsoft's *Windows environment* or de jure such as Unix and SQL, make the job easier and faster than having to work with proprietary protocols or ASCII file formats.

Many organisations are re-engineering their business processes and migrating mainframe applications and old PC DOS applications into the Open Unix and PC client-server, Lan and Wan environ*ments, right-sizing for cost* benefits and improving the 'interoperability' of applications at the same time. This invariably makes EIS implementations easier and faster and therefore more likely to succeed. Inevitably, INPHASE/EIS has to accommodate applications which are currently, and perhaps always will be, within proprietary environments. But even *here, the availability of* 'gateways' between Open Standards and proprietary data storage file systems and the adoption of open communications standards, such as IBM's offering of Open DataBase Connectivity (ODBC) for its mainframe DB2 database, is demonstrating the benefit of Open Standards to business.

Banyan integrates The London Stock Exchange

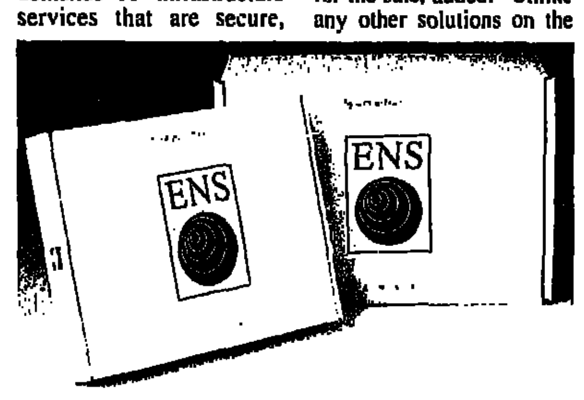
The London Stock Exchange has chosen Banyan's Enterprise Networking Services (ENS) to provide the computing infrastructure to link its departments. The decision, based on a review of the functional and technical criteria required for the business, considered several computer networking alternatives. Banyan's ENS for Netware solution was compared with Microsoft's Windows NT and Novell's Netware 4.0, the latest in enterprise computing solutions.

As part of this twelve month implementation, the Stock Exchange aims to deliver a core set of services for users and improve communication between different departments. To be successful, the Exchange demands IT infrastructure services that are secure, easy to maintain and well proven in the market place.

Alan Healey, a partner at Andersen Consulting, who is managing the project, commented: "Our objective in selecting the Banyan software was to get complete user buy-in. We didn't want any teams to fragment, what we needed was all the users to commit to a single system."

Healey went on to explain: "In the initial stages of the decision process we considered all the alternatives. We found that the other products available could not yet deliver what the manufacturers planned or they were not suitably well tested in the market."

Ed Hennessey, managing director of Bluepoint, the Banyan reseller responsible for the sale, added: "Unlike any other solutions on the market, Banyan's enterprise solutions have been around for years, through the VINES product range. Setting a lead in the market in 1993, Banyan launched ENS, delivering software to co-ordinate large disparate organisations, independent of hardware and operating system."



The Exchange has installed 20 servers and has 715 desk-top computers all *running on a new fibre* optic backbone. Banyan's ENS for Netware is running over Novell's Netware 3.12.

Addressing the challenge of Open Systems Management

by Peter Marshall,
European Technical Support Manager
Candle Service Limited

The increased flexibility of an open systems environ*ment inevitably* has its trade-offs. The advent of large client/server configurations has generated com*plex systems management* issues, primarily centred on costs. As a result, some enterprises are examining *whether to return* to mainframe-style centralised computing for certain mission-critical applications.

*Because systems manage*ment costs are generally hidden - end users tend to look after themselves - it can be argued that the shock of discovering the unexpected has created an unnecessarily strong reaction. The ideal way forward is to find a way of marrying the experience of traditional computing with the freedom of open systems, using new management methodologies and technology frameworks.

Drawing on its expertise in optimising the performance of IBM mainframes - which it pioneered in the mid 70's with its OMEGAMON solutions - Candle Corporation has transferred its technology to the UNIX world to allow organisations to manage the availability and costs of their computing and network resources properly for the first time. The Availability Command Center concept provides a map for key business applications and a plan for restoring them to active service when they fail.

Based on Candle Technologies - an object oriented framework - products have been developed to address the most commonly-expressed networked systems management problems: huge programming expense, high network overhead and central points of failure. Among these products are OMEGAMON for Unix, supporting the AIX, HP-UX and SunOS platforms, and OMEGAMON for Windows NT.

Matching the investment which global organisations are making in open systems with the appropriate enabling and support technologies to optimise those systems is the next hurdle to be jumped in realising the promised benefits of distributed computing. Those IT strategists who follow this track will deliver an edge to their organisations which others will be hard-pressed to follow.

Blazing a trail with Open Systems

When a company's com*puter system is bursting at* the seams, not many people would suggest replacing it with something smaller. But *this is the approach adopted* by Trailfinders, the UK's leading flight specialist, when it replaced three mini*computers with a single* Intel-based computer running SCO Unix.

Trailfinders had outgrown *its existing computer sys*tems. "Growth was painful," commented Catherine Rawson, the *company's director respon*sible for information technology. "It was becoming difficult to add extra termi*nals because each new user* caused an unacceptable deterioration in the performance of the system. With *annual growth occurring at* 20% to 30% per year, there was an urgent need for a new system."

The old minicomputers were used for sales and ticketing applications by Trailfinders' sales offices in *London and around* the country, an essential part of the company's business operation. All travel consul*tants have a terminal on* their desks with access to the airlines' Galileo flight reservation system and to *in-house systems*.

Trailfinders needed to run the same applications and also be able to add new ter*minals to meet the demands* of the business growth. It also had to be introduced with the minimum of dis*ruption to the business - and* it had to be up and running before its next busy season which was only a few *months away*.

"The whole thing that drove the decision," said Rawson, "was the porting *of the software and the data*. All we've really changed is the engine. That was another advantage of using Unix. *By using the same terminals* we reduced the cost of the new system."

The minicomputers were *replaced with a multi*-processor Intel-based CPU manufactured by Corollary and running the SCO Unix *operating system. This han*dles all 300 terminals in the Trailfinders' sales offices as well as providing capacity *for the predicted growth*. The new system has increased the speed of response of all terminals - *resulting in improved pro*ductivity and customer service.

Open Connectivity solves Mainframe access at Royal Borough of Windsor and Maidenhead

The Royal Borough of Windsor and Maidenhead wanted to achieve universal transparent access to DB2 data but without the restrictions of only DB2 connectivity. Mike Kirby, Head of Computing, commented: "IT strategies continually evolve and looking further ahead, we decided it was imperative that the Borough did not restrict itself to DB2 connectivity - we had to make way for a more 'open' approach"

The two products put forward for trial were EDA/SQL from Information Builders and DB2 Gateway from Micro Decisionware inc. Both met the borough's original criteria, as Mike Kirby further comments: "We wanted to be able to say to our users, 'Here are your familiar OPC tools and here's transparent access to mainframe data - now make use of it.'"

The trial, managed by XperTec, one of the Borough's Direct Services Organisations, brought the issue of product to the fore, as Simon Walker, XperTec Data Product Manager, comments: "We were new to middleware and needed to call on both suppliers for support during the trial. We found Information Builders particularly forthcoming in taking ownership of problems: they were just as proactive in sorting out our problems on the PC side as on the Mainframe side."

Mike Kirby concludes: "While we were able to train more technically-minded users to master QMF, we were not meeting our primary objective: to provide all users with transparent access to DB2 data. Further to this, we found an additional drawback with the QMF was the drain on mainframe resources: we wanted to be able achieve universal user access without significant impact on mainframe power.

"EDA/SQL's existing multi platform capability, coupled with the company's proven commitment to the highest levels of customer support, satisfied us that Information Builders would provide us with the solution we required."

Exhibition provides comprehensive forum for information, education & interaction

Information access at all levels of an organisation is the key to business success. Enterprise IS is an intensive learning forum for business managers, IS directors and their staff looking to explore the benefits of adopting an enterprise-wide approach to corporate IS systems.

Visitors will see demonstrable proof of multi-vendor interoperability from exhibitors including IBM, Sun and MDIS. On each day there will be a keynote presentation on a topic of interest to both business and technical management.

enterprise 94
Advantage through information
Earls Court II, 18-20 Oct.

KEYNOTE SPEAKERS INCLUDE:

Don Taylor, Marketing Director of Oracle Corp UK
Mr Thorn Blischok, VP Global Industry Consulting Unit, AT&T Global Information Solutions
Janet Perna, Director of Database Development, IBM Software Solutions.

For more information, call Blenheim Online on 081-742 2828

London Electricity supplies 1.7 million users with advanced IT-based customer enquiry centre

London Electricity has recently set itself tough new targets in its ongoing customer service programme. The centralised customer enquiry centre in Bexleyheath handles the 50,000 calls a week it gets from its 1.7 million domestic customers in the Greater London area and beyond. The aim is to offer a full 24 hour, 7 day service from a single centre that responds to all calls within 15 seconds, with the number of calls that need to be referred elsewhere reduced to under 5 per cent.

London Electricity turned to Inference Europe, a leading supplier of open software development tools and services to provide the technology and consultancy services for the ambitious task.

John Turner, special projects manager responsible for the development of the London Electricity Customer Enquiry Centre, commented, "What we were looking for in a new system was an agent-friendly, supervisor-controlled environment in a central location to allow us to offer a better grade of service but in a far more cost-effective manner."

"The new system was developed around our existing open hardware environment, enabling rapid and complete integration with the minimum of disruption to London Electricity. With our staff working alongside the Inference consultants and their CBR Express problem resolution technology, we were able to get the system up in 6 weeks and have the staff trained at the same time," he concluded.

CBR Express now helps the 100-plus enquiry agents prompt questions to put to customers and identify where to locate the information in the mainframe system needed to solve customer problems, which range from billing enquiries, across meter reading and lost supply. According to Turner, the systems ensures that, "we can now provide the correct information first time and every time to our customers."

TETRA CASE STUDY:
Spillers Foods International

Spillers & Tetra open up Europe

SPILLERS FOODS INTERNATIONAL

Spillers Foods International is one of the largest petfood manufacturers operating throughout Europe. The business is a combination of Spillers Foods and the pet food interests of BP, acquired by Dalgety on behalf of Spillers Foods in November 1993. Following the acquisition, Spillers Foods opted to retain the computer system developed by BP.

In 1992, the BP management was required to implement a new computer system throughout Europe, when BP decided to restructure the business and make BP Petfoods a separate division. The International division was set up to cover all of continental Europe.

The time scale was very short. They needed to find a system which had integrated finance, distribution and manufacturing control, providing multi-lingual and multi-currency facilities at each site with central consolidation at HQ. The software also had to be Open Systems, easy to use and maintain and, most important, the Finance modules had to be implemented at the first site in Belgium by 1st January 1993 and at their Headquarters in the Netherlands by April that year. A further 8 sites, including manufacturing sites in the Netherlands, Germany and France and two sites in Spain and Italy would follow over the next 2 years.

This gave them very little time to develop the specification and select a supplier. They decided that a Unix based package system was the only solution and, after considering the available options, chose Chameleon 2000 from Tetra Ltd.

Chameleon 2000 is an integrated modular system incorporating 32 modules covering finance, distribution and manufacturing, which is available on the Unix based IBM RS6000 - Spillers' preferred hardware platform. The software was an excellent fit with the added benefit that Tetra could meet the tight implementation timetable which Spillers needed.

Full support from Spillers and careful project management from Tetra have ensured that the time scales have been met and the whole operation has been a great success. Speaking for Spillers, Chief Accountant, Ton Van Den Dungen, said, "We now have 96 users on the system and will complete the project in early 1995. It provides excellent management control, is very easy to use and extremely cost effective, allowing us to keep our annual IT costs at 1% of turnover."

For more information call Tetra on 0628 770939

May the force be with you

This summer saw the official publication of UniForum UK's Code of Practice, and Mike Briercliffe, chairman of UniForum UK's Trading Standards Committee, used the occasion to offer some of the biggest names amongst UniForum UK's trading members a challenge - to be amongst the first to voluntarily adopt the Code's provisions.

'I realise that many of these companies, probably use internal trading standards that are the equivalent of the Code,' he said, 'so they probably already comply with the standard we have laid down. 'With the big names on board,' Briercliffe added, 'we can then attract the smaller vendors such as the value-added resellers. These are the companies that really need a Code of Practice and the recognition that they comply with it. Perhaps the most important feature of the Code of Practice is that it lays stress not only on the seller to behave according to a set of rules, but also on the buyer to know what it is they are buying. The key to ensuring that this step is taken is the introduction of a Memorandum of Understanding (MOU).

'The MOU is the fundamental document in the Code of Practice,' Briercliffe said. 'It will be signed by both the vendor and customer, so that both sides know and understand what it is that is being bought, for what purpose it is intended and how it should fit those objectives.

For futher information contact Philip Flaxton on 081 332 0446.

The Key to Client/Server success

IBM have been delivering client/server solutions with a practical and proven approach for over a decade; initially only across IBM platforms, but today over a wide variety of multi-vendor hardware and software.

IBM's experience has shown that successful client/server projects need to have a management focus, not only during implementation, but also on an on-going basis. This is especially true of systems management.

This is echoed by recent market surveys from amongst others, Computerworld and Share Europe. These have shown that over 90% of client/server investment costs in the first year may be taken up by managing the new environment.

Many consider IBM to have the best of breed offerings in systems management. The IBM range of products and services allow management across multiple vendor environments - including HP, Sun, NCR, Novell, Digital, Unix as well as well as the IBM product family. These products are based around SystemView, IBM's framework for enabling management of multi-vendor systems and networks..

IBM's systems management expertise is currently being utilised by leading edge companies in the UK. One example is BT. IBM and BT are working together to design and develop a systems management technical framework for the management of BT's Open Systems.

This framework, which is based on IBM's NetView/6000 product, will integrate existing systems management components from a variety of sources and will enable BT to manage a multi-vendor network of Unix systems.

To realise the full business benefits of client/server, organisations need to implement effective systems management practices.

IBM have the consultancy, services, and applications to help in both systems management and all other aspects of client/server to ensure a successful delivery of your client/server solution.

Come to the Enterprise IS Show and see IBM software solutions in action. Or call IBM on 0345-898898 for further information.

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UNIPLEX CASE STUDY:

Portsmouth Hospitals NHS Trust

The maturity of Open Systems software The last link in the chain

The business benefit of the computer is unquestionable - and today's wealth of computer applications, architecture's and infrastructures, appropriately jigsawed together, can suit any organisation's requirements.

At the heart, a centralised computer system, often a mini-computer, not only executes the core business applications - but also provides vital services such as message routing, error tracking, and necessary administration.

The personal computer has increased user participation with an abundance of off-the-shelf applications such as databases, word processors, spreadsheets, graphics and electronic mail. The key link between these environments, therefore, has been the development in the last five years of Open Systems software linking the desktop applications with the centralised operating environment.

Thanks to Open Systems software, the transition from centralised computing to fully distributed environments is now not only possible but is reaching an optimum state of equilibrium.

Uniplex's onGO products are based on standards and open systems to maintain interoperability. The software is designed to meet an organisation's changing needs and to form the foundation of an integrated office environment, re-uniting the commonly disparate environments of the PC, X-terminal or workstation and the ASCII character terminal with the power and performance of a Unix server environment.

The Portsmouth Hospitals NHS Trust installed onGO Office on its SCC Unix servers in April this year to provide over 400 users with a suite of software functionality. This includes an electronic mail service between users at the hospital and external general practitioners throughout the Portsmouth area via the national RACAL network. It also enables word-processing document conversion to WordPerfect format. Uniplex's onGO Office was chosen by the Portsmouth Hospitals NHS Trust for its ability to completely integrate all its applications with ease and efficiency, enabling a fully operative Open Systems environment.

For more information call Uniplex on 0442 230330.

Axent Technologies launches Information Security for client/server computing

Due to the massive growth in client/server computing architectures, Raxco, a leading provider of security solutions for open computing environments, has set up a new division - Axent Technologies. Axent Technologies is devoted exclusively to providing cross-platform, client/server security solutions. The division was founded to develop and market OmniGuard, a comprehensive, security solution that provides enterprise-wide, information security across a broad range of hardware and software platforms.

"In recognition of the high demand for information security solutions in the client/server market, Raxco has created a new division dedicated exclusively to this area," said Joseph Corr, Director, International Sales and Marketing at Raxco.

According to Sentry Market Research's 1993-1994 survey of the client/server market, sales of client/server software, hardware platforms and related services will grow from $12 billion in 1993 to $54 billion by 1998. In addition, a survey in the March/April 1994 issue of Infosecurity News indicates a significant growth in the annual budget for client/server security software, with 21% of the sites reporting that they intend to spend £250,000 or more on these products in 1994.

Axent's goal is to become the dominant vendor in this rapidly emerging market.

OmniGuard is a complete security solution of six integrated software modules that collectively manage, serve and protect enterprise-wide, client/server systems and data. The functionality of the OmniGuard modules covers all aspects of client/server security - from the definition and management of enterprise-wide security policies, through access control and intrusion detection, to automated file backup and retrieval. OmniGuard will be available across a wide range of hardware and software platforms including PCs, PC-LANs, UNIX Workstations, UNIX servers, Windows/NT, Open VMS and IBM MVS.

To support its product offerings, Axent Technologies also offers Consulting Services covering security assessment, vulnerability analysis, policy development, implementation, training and disaster recovery planning.

Open Systems Management - Myth or Magic

By Tony McGarth,
Director of Marketing
Primary Systems Ltd

Critical deficiencies have emerged that threaten the longer term viability of OPEN SYSTEMS in a Client/Server format.

In Client/Server format, the resilience and functionality of Computer operations developed in Mainframe systems has been forfeited in favour of "Distributed Empowerment" Eg Multiple servers distributed at the Business Unit level.

The upside benefits, which have been considerable, accrued during this change have been directly attributable to the re-engineering of arcane business processes and not the technologies used to implement the new systems.

It is true to say that there has been a significant reduction in the capital cost of IT equipment but the downside legacy is one of higher running costs.

The physical distribution of processors and processes' results in duplication of effort, loss of economies of scale in areas such as Printing and Batch Scheduling and increases the difficulties of effective Business Process control.

Already studies have shown that Client/Server is an expensive format to maintain in terms of technical resource.

Skill shortages are again occurring and will escalate. Certain organizations will exacerbate this by throwing money at personnel.

What then of lessons we have learnt from the 70 s and 80 s and one of the toughest recessions in living memory?

The answer must surely lie in effective Systems Management that distributes functionality yet provides management with the information needed to make informed decisions.

Primary is delivering systems that achieve economies of scale for printing and Task automation.

UniQCommander is a practical implementation that allows management to determine the critical Business processes and to controll them by allowing the systems to report on their status automatically and deliver the information wherever the manager is.

Self Managed Systems allows the true interoperability of Desk Top Personal Computers using Windows from Microsoft and the "back office" power of UNIX.

For more information call Primary Systems on +44 (0)1628 829911 or E-Mail @ CompuServe 100336.1333.

Safety, Security and Survivability

...by CTEC, one of the UK's largest suppliers of IT training for end-users of DOS, UNIX and Windows applications

Those who know Unix respect it for its power and its performance. Those who have heard of Unix know that sooner or later they will need it. And those who have bought Unix know that they really do need to understand it better.

CTEC's training makes the understanding of Unix more easily attainable. That understanding enables each Unix user to achieve much more of the potential of their Unix systems.

Unix is an extremely powerful and competent operating system. It is capable of being totally customised to manage the system's specific resources, providing personalised functionality to its many users, enabling each of them to multi-task.

It would be simplicity itself to produce a course which "blinds its delegates with science" and which leaves them terrified to go anywhere near Unix. CTEC's aim is to acknowledge the power at the disposal of Unix users and system administrators, and guide them to make logical, rational and safe decisions when working in the Unix environment.

At its most basic level, Unix has a lot of work to do when it is satisfying even the most fundamental of the demands of its many users. If someone has bought the bare minimum configuration in order just to satisfy their basic needs, then the likelihood is that they will not have bought a machine with the necessary power and performance with which to provide any degree of friendliness or resilience.

Unix users working with this configuration will need to be particularly careful, since Unix will do exactly what they tell it to do! On the other hand, Unix can be just as friendly as any other software product. Technology can be applied to cater for resilience, redundancy and survivability, in which case it is easy for users and administrators to become complacent. They may disregard the need for the continued maintenance of their skill levels and then be caught seriously short when even the most trivial of problems arises.

Large organisations may typically have an Information Systems Section or Computer Section which provides technical and system support to the users. Medium to small companies tend to employ existing staff in a dual role. They may be part-time fulfilling their operational commitments - for example, running the office, the warehouse or the production line - and part-time managing the departmental system.

Irrespective of the size and complexity of the organisation, it is likely to depend to some degree on the sustained availability of the Unix system, so Unix users and systems administrators must be trained to be competent in their duties.

Properly installed Unix-based applications should be transparently available to their users. It shouldn't be necessary for those users to receive specific Unix training. On the other hand, in order to economise on the effort used in managing a Unix-based system, and be able to use the minimum of resources, it is necessary for at least a nucleus of staff to have fundamental skills.

These skills will include navigating the Unix filestore; carefully diagnosing and correcting trivial problems; finding misplaced files; removing rubbish and generally caretaking the system.

There is also a need for a smaller number of staff to manage the system - to design, implement and manage user working group relationships, permissions and working directory layouts; to add, modify/reconfigure or remove peripherals; to recommend enhancements to the system; to liaise with suppliers in order to specify the customer requirement, demand service support or maintain fault reporting processes.

On more sophisticated systems, there may be a need for data communications skills, network management skills, database management skills, office system management skills and/or programming skills. The key issues which CTEC addresses through each of its Unix courses are safety, security and survivability. CTEC's Unix courses provide a firm foundation on which to build each of these inter-dependent aspects of a properly managed vital resource. In today's competitive market place, you can't afford to be without your system for too long.

Win an ICL notebook

If you plan to visit this week's Enterprise IS show (sponsored by UniForum UK), you will have the opportunity of signing up for six months FREE individual membership of UniForum UK and have the chance to win a N4/50c notebook donated by ICL, valued at over £2,400.

All you have to do is cut out the token and present it to the UniForum UK stand 230. Complete an application form, answer three simple questions and your name will be automatically entered into the grand draw which will be announced at 3.30pm on Thursday October 20. The lucky winner will be notified by telephone within 24 hours of the draw.

Enterprise IS takes place at Earls Court 2, London from 18-20 October. You will be required to present this token and complete a registration form in order to gain free admission to the event.

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